

Aides Urge Shultz To Consider Visit To Moscow Soon

By Hedrick Smith
New York Times Service

WASHINGTON — Some State Department officials have been urging Secretary of State George P. Shultz to consider undertaking a diplomatic mission to Moscow this summer, according to high-ranking administration officials.

The purpose of the trip, the officials said, would be to explore possibilities for easing negotiations

deadlocks and to determine what lies behind Moscow's recently expressed interest in more normal relations.

But the prevalent thinking within the administration regarding such a mission, several officials said, is considerably more cautious. They said the idea had not been broached to the Soviet government because of disagreement within the administration over the wisdom of such a mission. Mr. Shultz said Friday that there had not been enough progress on a wide range of Soviet-U.S. issues to warrant any high-level meeting before the fall, when he is scheduled to talk with Foreign Minister Andrei A. Gromyko.

Specifically, some State Department officials are said to have proposed that Mr. Shultz seek discussions with Mr. Gromyko this summer to deal with arms issues and regional disputes and to explore whether Moscow will move toward agreements on such issues as cultural exchanges and the opening of

consulates in Kiev and New York. Their hope is that such modest initial steps could improve the climate of Soviet-U.S. relations.

Some officials, including White House advisers, are understood to feel that a Shultz mission to Moscow this summer might help set in motion a series of meetings that would eventually lead to a meeting between President Ronald Reagan and the Soviet leader, Yuri V. Andropov.

William P. Clark, the president's national security adviser, is reported to have said he fears that Moscow might explore a visit by Mr. Shultz to generate a "peace offensive" aimed at preventing deployment of U.S. medium-range nuclear missiles in Western Europe at the end of the year.

Although Mr. Reagan stressed new "flexibility" in his strategic arms negotiating position last week, he is said to be leery of premature public pressure for a summit meeting because of exaggerated expectations of some breakthrough in the now-stalemated arms talks.

Officials said that if Mr. Shultz became persuaded that a trip to Moscow would be worthwhile, the

president would probably go along with the idea. But one official cautioned that the administration did not have a clear strategy for the next steps after such a mission and asserted that it would be unwise to attempt it "unless we have a clear agenda and know where we want to go."

High-ranking officials emphasized that "nothing is going on now with the Russians." So far, they said, regular diplomatic contacts and the arms negotiations in Geneva give no hint of possible shifts in Soviet positions on the most controversial and important issues or any sign of new Soviet interest in compromise on arms control or regional problems such as Poland, Afghanistan or Central America.

Earlier this month, the State Department asserted that the Soviet leadership would "find a ready partner" if it was prepared "to take concrete steps in the interest of better relations."

That comment came in reaction to a report from W. Averell Harriman, the former U.S. ambassador to Moscow and longtime specialist on Soviet affairs, that Mr. Andropov had said he wanted more normal relations with the United States and was "interested in seeking joint initiatives."

Mr. Andropov has been urged by visiting foreign leaders such as Prime Minister Yasuhiro Nakasone of Japan and Chancellor Helmut Kohl of West Germany to seek a summit meeting with Mr. Andropov as soon as possible. Similar calls have come from the Senate majority leader, Howard H. Baker Jr. of Tennessee, and the chairman of the Senate Foreign Relations Committee, Charles H. Percy, Rep.

The White House remains con-

cerned, however, about Soviet moves in the Caribbean and Central America and watchful of Moscow's reactions to the new U.S. arms negotiating position in Geneva.

Administration officials report that the number of Soviet military personnel in Cuba has risen from about 6,000 to 7,500 over the last two years. Although the size of the Soviet military presence has increased since last year, it has remained at roughly 2,500 to 3,000 troops, officials said, and the numbers of Soviet intelligence, support and advisory personnel has risen.

Washington has also paid close heed to reports that Mr. Andropov has appeared frail at recent ceremonial occasions. So far, officials regard these reports as exaggerated. But specialists said that if Mr. Andropov continued to be troubled by health problems, it could affect his ability to assert strong leadership and should he want to lead the Politburo to shift Soviet negotiating positions.



United Press International
Michael Foot, 69, who will step down as leader of Britain's Labor opposition at the party conference in October.

In U.K., Welfare State Works for Thatcher

By R.W. Apple Jr.
New York Times Service

LONDON — The real victor of last week's British general election, some was commented, was Clement Attlee. For it was Mr. Attlee's Labor government that, starting in 1945, put in place the safety net of welfare benefits which, it is argued, no Conservative prime minister could have

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even dreamed of winning re-election with more than three million people unemployed.

There were many other reasons why Margaret Thatcher won a landslide victory, not least her own resolute leadership, the disarray and the extreme platform of the Labor opposition and the inept British electoral system, which gave the Conservatives 61 percent of the seats in the House of Commons for 42 percent of the popular vote. But it is unquestionable that the postwar package of welfare benefits softened the anger of the working people that might otherwise have caused them to give more extensive backing to Labor.

It is often suggested in the United States that the prime minister is in the process of dismantling, or intends to dismantle, the welfare state. That is incorrect. At most, he is streamlining it a bit and painting it a different color.

Despite her emphasis on the Victorian values of thrift and self-reliance, despite her visceral dislike of much of what the Attlee government and its successors have wrought, Mrs. Thatcher is far too clever a politician to embark on the kind of crusade against welfare chiseler and over-generous bene-

fit that President Ronald Reagan indulges in. Not once did she suggest during her first administration or during her campaign that the dole, an unemployment compensation is unambiguously known here, should be limited or reduced, although many recipients of dole payments are known to have hidden part-time jobs in the "black economy." The consensus is too strong across class lines that those without jobs should be taken care of.

Nor has Mrs. Thatcher ever suggested that state pensions should be cut back. The Tory manifesto promised to maintain the link to inflation, so that retired people can maintain their standards.

The Labor opposition tried to demonstrate, with the help of leaked cabinet documents, that the prime minister intended to do away with the National Health Service, the country's system of socialized medicine. It was unable to make the charge stick.

She pledged that she would increase its funding during the next five years, and she was able to point to figures showing that the rate of growth, so during the last four. But she undoubtedly would like to increase the scope for private medical insurance plans and to make other changes that would improve the service's efficiency. It has an outstanding record as far as major medical care is concerned, but it is so overburdened that "minor" operations and preventive medicine have not so well attended to.

Of all the provisions of the welfare state, housing is the area in which Mrs. Thatcher has made the most far-reaching change and the one from which she has derived the (Continued on Page 2, Col. 2)

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(Continued on Page 2, Col. 2)

Some Progress Is Seen on Arab Consensus

By Joseph Fichter
International Herald Tribune

PARIS — A flurry of top-level Arab consultations, inspired mainly by Saudi Arabia, appeared Sunday to be making limited progress in reducing rivalries enough for a summit of major Arab countries to discuss the crises in Lebanon and in the Palestine Liberation Organization.

Any consensus, however, may fall short of U.S. hopes for progress on Syrian and Israeli troop withdrawals from Lebanon — the key Middle East issue under negotiation — or movement on the wider search for Arab-Israeli

peace, several Western diplomats said in telephone interviews.

Syria, apparently unswayed by Saudi diplomacy, again firmly rejected Sunday any compromise in its opposition to the recent Lebanon-Israel accord. The rejection followed a visit to Damascus by Moamer Qadhafi of Libya, who had earlier held talks in Jordan and in Saudi Arabia, which appeared to blunt Qadhafi's antagonism to both countries.

Saudi Arabia's campaign, however, appeared to be gaining in its most urgent priority: saving the unity of the Palestinians under the leadership of Yasser Arafat, chairman of the PLO.

Mr. Arafat, in Bahrain Sunday on his own trip to Arab capitals, said an Arab summit was to be held to discuss Middle East peace proposals. But he said the date, place and participants for such a meeting — long blocked by hostility between Arab moderate and radical regimes over U.S.-led peace moves — were under discussion.

A full-scale Arab summit is scheduled for November in Saudi Arabia, but Saudi leaders have been trying to hold an earlier meeting to salvage a common Arab position. Saudi officials, interviewed last week, expressed concern over three developments: the collapse of talks between Jordan and the PLO over President Ronald Reagan's peace plan, Syrian opposition to the agreement on Lebanon and the mutiny against Mr. Arafat.

While Saudi Arabia has been unable to use its financial power to reunify Arab ranks behind recent U.S. initiatives, Saudi leaders have succeeded in mobilizing most Arab leaders in the search for a common consensus — including, most notably, Colonel Qadhafi.

An Arab meeting, diplomats said, might facilitate a bargain — for example, on Lebanon — and would generate political benefits for moderate pro-Western governments, including Saudi Arabia and Jordan and for Mr. Arafat: Valuable support for Mr. Arafat is also coming from the Soviet Union, which reportedly told Syria earlier

last week that it wants him to stay as PLO leader.

The risk is that the PLO could lose its political and negotiating unity, splitting into two factions — one led by Mr. Arafat and supported by Saudi Arabia and other conservatives, the other supported by Syria and Libya, which have been helping the mutinous radicals.

Pushing up Arab unity could restore some semblance of a single Arab bargaining position, but Saudi Arabia may well have to move closer to Syria's tough terms on Lebanon, diplomats said.

Syria said Sunday that its rejection of the Lebanon-Israel accord is "not negotiable." That statement followed remarks in Washington Saturday by Lebanon's foreign minister, Elie Salim, that the United States and Syria would soon start discussing the withdrawal of all foreign forces and would not move its troops unless Syrian and Palestinian soldiers also left.

The cabinet rejected a call by former Defense Minister Ariel Sharon for an inquiry into the war with Lebanon. Mr. Sharon, now minister without portfolio, has complained that he was being singled out for blame in the government's invasion last summer.

The multinational peacekeeping force in Lebanon will be needed for as long as a year after Syria, Israel and the PLO withdraw their forces, Mr. Salim said Sunday on ABC-TV's "This Week with David Brinkley." Mr. Salim said he was optimistic about the chances of a Syrian withdrawal. The Associated Press reported from New York, he also said he believed the United States would play an active role in the withdrawal.

"Sooner or later Secretary Shultz or his representative have to be involved" in the negotiations, Mr. Salim said, "because Syria has many issues it wants to discuss with the United States."

Saudi officials have said privately that only U.S. moves to reopen Syrian negotiations with Israel on recovering the occupied Golan Heights will move Syria, but other diplomats have speculated that

the Foreign Service and the

demise of its role and objectivity as

the Reagan administration has jumbled personnel and toughened policy in the region.

In recent conversations in the area, U.S. diplomats have privately criticized the ascendancy of what one called "foreign policy amateurs" in the administration and sniping at the State Department and its diplomats in the field.

Several of the diplomats questioned administration rhetoric and policy decisions in relation to their own reporting. But most said their complaints were based less on objections to the direction of policy

Many Egyptians Make Late Start on Ramadan

United Press International

CAIRO — The Moslem holy month of Ramadan took many Egyptians by surprise, arriving 24 hours earlier than they expected.

In calculating the start of the month of prayer and fasting, modern methods are shunned. The words of Mohammed, "he who sees [the new moon] of the month should fast," are followed literally. Egyptians expected Ramadan to begin Sunday, and Moslem leaders had arranged a ceremony Saturday evening to spot the new moon.

But the moon was seen in Saudi Arabia on Friday evening, marking Saturday the first of Ramadan. Egypt accepted the Saudi observation and an announcement was broadcast shortly after midnight, while many Egyptians were asleep.

"I was having breakfast as usual in a restaurant when someone told me Ramadan had started," said Ahmed Abdel-El, a merchant. "At first I thought it was a bad joke. But unfortunately, it turned out to be true." Moslems worldwide are required to fast from sunrise to sunset through the lunar month.

In some parts of Cairo, police cars with loudspeakers toured the streets before dawn to inform people that Ramadan had started.

Brazil Preparing Aid For Isolated Surinam

By Warren Howe
New York Times Service

BRASILIA — Brazil, in a break with international efforts to isolate the leftist government of Surinam, is negotiating a trade and aid package with the former Dutch colony.

The Netherlands and the United States cut off aid to Surinam in December, and Colombia and Venezuela later turned down requests for help.

"We take these declarations at face value," said Foreign Minister Ramiro Sarava Guerrero.

General Daniel Vennimini, President Joao Baptista Figueiredo's troubleshooter, told the Senate that "it would be bad for a neighboring country to become the ally of nations that could bring problems to Brazil."

The oversight committee of the U.S. Congress earlier this year turned aside CIA concern about Cuban influence in Surinam. The agency was seeking approval for a covert operation to overthrow the Surinamese government.

Sources in Brasilia who monitor events in Surinam said there were 40 to 50 Cubans there, operating out of the embassy in the capital, Paramaribo, and out of a large mission in neighboring Guyana.

Surinam, a Dutch-speaking nation with a population of 350,000 of European, African and Asian background, and with hundreds of miles of trackless jungle between its capital and its inland frontiers, has traditionally been aloof from the rest of South America.

On gaining its independence in 1975, it obtained a \$1.5-billion aid program from the Dutch that amounted to \$110 million a year, roughly a fourth of the national budget. This program was suspended by the Netherlands in December. The U.S. suspension halted a \$1.5-million program signed in September.

Brazil views events such as those that provoked the aid cuts and stood in the way of Venezuelan and Colombian assistance as internal problems.

U.S. Envoy See Their Jobs Being Politicized

By Christopher Dickey
Washington Post Service

SAN JOSE, Costa Rica — A number of high-level U.S. diplomats in Central America say they are increasingly concerned about what they call the politicization of their

U.S. Envoy to Central America, Francis J. McNeil, who was quoted as describing Mr. Reagan's "unhappiness with the execution of U.S. policy" in Central America and the president's desire to fill jobs with people of unwavering loyalty.

Mr. McNeil, the only ambassador appointed by President Jimmy Carter in the region to be retained for a significant length of time by President Ronald Reagan, is scheduled to leave his post here this month. Of a range of diplomats interviewed in several Central American countries, he was the only one willing to speak publicly on the subject.

In an interview here Friday, Mr. McNeil denounced what he called "attacks on the Foreign Service."

He was referring to news reports surrounding the announcement two weeks ago that Thomas O. Enders, the assistant secretary of state for inter-American affairs, and Deane R. Hinton, the U.S. ambassador to El Salvador, were to be replaced and American policy toughened.

In those reports, senior adminis-

tration officials were quoted as describing Mr. Reagan's "unhappiness with the execution of U.S. policy" in Central America and the president's desire to fill jobs with people of unwavering loyalty.

In the American Foreign Service, a lot of people serve at some risk," Mr. McNeil said. "It doesn't do us or the nation much good to be labeling them as 'cookie pushers.'

In a separate interview with The Dallas Times Herald earlier in the week, Mr. McNeil said, "To suddenly find out that senior people in the White House are changing the Foreign Service with being soft on communism — that's McCarthyism."

One diplomat said the corps is aware that the elected ambassador to Central America — his name had been offered by Mr. Enders — he told Washington that someone was needed with more "political clout."

That does not appear to be a universal reaction, however. There is little criticism from diplomats here in the region, for instance, of the choices to replace Mr. Enders and Mr. Hinton, even though new American secretary, Langhorne A. Motley, is not a professional diplomat.

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■ Senator Alan Cranston won an upset victory over former Vice President Mondale in a Wisconsin Democratic convention straw poll. Page 3.

■ Brian Mulroney defeated former Prime Minister Joe Clark for the leadership of Canada's opposition. Page 3.

■ The spacecraft Pioneer-

Shultz Says French Ambiguity on NATO Is 'Aggravating'

By Bernard Gwertzman
New York Times Service

WASHINGTON — Secretary of State George P. Shultz has expressed irritation with the French government, saying that "it is aggravating" to deal with France on allied matters because of ambiguity by the French about their role in the Atlantic alliance.

Mr. Shultz, who rarely criticizes an ally publicly, made the comments Friday night as he flew to Washington from the North Atlantic Treaty Organization meeting in Paris. He said the conclusion of the two-day meeting of NATO foreign ministers was delayed for about three hours because of French "sensitivity" over the wording of the final communiqué.

"You are constantly in the process of saying, 'The allies think such and such,' and then the French say, 'We agree with that, so that's no problem, but that's something the unified command did and we can't touch that,'" Mr. Shultz said. "And then you struggle around with language not to weaken the point, and at the same time, protect the precision of the French view."

France is a charter member of NATO, but pulled out of the military command in the 1960s. Mr. Shultz's comments were an expression of his long-standing irritation with what he called the difficulty of

dealing with France on the drafting of allied statements. The problem dates from November, when France withdrew, after initially agreeing, to a joint statement on East-West economic relations to surmount a crisis over the Soviet natural gas pipeline.

Mr. Shultz also stressed, as he did earlier in the week in Paris, that the United States was probing the Russians on a wide range of issues, but that so far there had been not enough progress to warrant any high-level meeting before he sees Foreign Minister Andrei A. Gromyko at the United Nations in the fall.

As to a possible summit meeting between President Ronald Reagan and Yuri V. Andropov, the Soviet leader, Mr. Shultz said some allied ministers he talked with in Paris "think it would be nice just to have a meeting." But he said the majority favor a summit only "if there is something worthwhile to come out of it." That, he said, is "precisely the president's view as well."

On Saturday morning, Mr. Shultz met for two hours with Philip C. Habib, the special Middle East envoy, and other Middle East advisers, before conferring with Elie Salomé, the Lebanese foreign minister. The Lebanese are pressing the United States to take an active role in trying to bring about Syria's agreement to withdraw from Lebanon.

Mr. Shultz said Friday night regarding the Middle

East, "I can't say there are indications of something about to break." But he said he had heard "more background noise, or whatever, that has to do with problems that Syria sees, that are essentially descriptions of problems that are resolvable through negotiations, essentially between Lebanon and Syria."

"That doesn't mean there is a break in the logjam, however," he added.

Mr. Shultz is scheduled to make a trip soon to the Far East, including attending a meeting in Bangkok of Southeast Asian nations, and then to fly to India and Pakistan for talks. An aide said Mr. Shultz might conclude that trip early next month with stops in the Middle East. But Mr. Shultz said there were now no such plans.

In discussing relations with France, he spoke as many of his predecessors, of frustrations in negotiating agreements with the French. Only rarely has any secretary of state discussed the matter as candidly as Mr. Shultz.

A senior aide said that Mr. Shultz regarded the French with "carefully controlled civility." He said the secretary finds it particularly annoying when the French tell him in private that they agree with a position then insist on something else publicly.

"We recognize that for political reasons, Mitterrand needs to put some distance between themselves and

the alliance," the aide said, "but it doesn't mean that we enjoy the process." President François Mitterrand's Socialist government is under attack from the left for allowing France to be drawn too closely into NATO's military plans.

The fact that the NATO meeting was held in Paris in an absence of 17 years was meant to symbolize France's attachment to the alliance. But Foreign Minister Claude Cheysson, at a news conference Friday in Paris, sought to leave the impression that France made no concessions in the final communiqué.

The NATO statement contained a reference to East-West trade. Mr. Shultz said time was spent Friday morning in debating whether the communiqué would include a reference to the allies seeking alternate sources of natural gas — so that they are not overly dependent on the Soviet pipeline — or just alternate energy sources.

The original draft referred to natural gas, sides said, but the final document, to meet French objections, said that "development of Western energy resources should be encouraged."

"So, it's always something that seems to take a lot of discussion," Mr. Shultz said, "and to some extent, it is aggravating."

Nevertheless, he said, he thought the meeting ended well.

BUSINESS BRIEFS

Li Seen Getting China Presidency

BEIJING (Reuters) — China gave the strongest hint yet Sunday that the veteran economic planner, Li Xianmin, will become the new president by publishing his picture on the front page of the People's Daily.

He was shown with delegates to the current session of the National People's Congress, which is due next week to elect China's first president since the 1950s under a constitution adopted last year. Diplomats said the prominence given to Mr. Li meant there was little doubt he would be elected, as has been widely expected for several weeks.

Mr. Li, 78, is widely respected for questioning Mao's economic policies in the 1950s, although he remained loyal and managed to stay in favor during the 1956-76 Cultural Revolution. He is regarded as a compromise candidate acceptable to both reformers and conservative elements in the leadership.

Gandhi's Party Fails in Kashmir

NEW DELHI (NYT) — A regionally based political group, the National Conference Party, has won a substantial majority in assembly elections in the northern Indian state of Jammu and Kashmir.

The election was regarded as a test of the central government's ability, through Prime Minister Indira Gandhi's Congress-I Party, to strengthen its hand in the Kashmir Valley at a time when regional political movements are cutting into its strength. In the weeks before the election at least three persons were killed and several hundred injured in clashes between the two parties' supporters.

With the results of the June 5 elections made public Saturday for 71 of 76 constituencies statewide, the Congress-I Party had won only one of the 42 seats in the overwhelmingly Moslem Kashmir and 23 of 32 seats in the predominantly Hindu Jammu region. The National Conference, which calls for semi-autonomy for Jammu and Kashmir, had taken 44 of the 71 seats.

100,000 Demonstrate in Madrid

MADRID (Reuters) — About 100,000 people took part in a demonstration Sunday calling for Spain's withdrawal from the North Atlantic Treaty Organization and the removal of U.S. military bases, organizers and police said.

The march and rally were organized by the Communist Party and anti-NATO and anti-nuclear groups. A statement was read calling for the dismantling of U.S. bases, Spain's withdrawal from NATO and an immediate referendum on membership.

Spain joined NATO last year under the former centrist government, but the Socialists from military integration when they came to power in December and promised a referendum. The Socialists have yet to announce a referendum date, and Foreign Minister Fernando Moran said Saturday that East-West tension over the deployment of nuclear weapons in Europe appeared to rule out the possibility until 1985.

France Tightens Police Discipline

PARIS (Reuters) — The French government Sunday ordered all off-duty policemen confined to quarters next Thursday, when rightist police unions have called for new mass demonstrations.

On June 3, 2,000 policemen, angered by the deaths of two detectives, demonstrated in Paris, calling for the resignation of the interior, justice and security ministers. Unions have called the Socialist government soft on law and order.

The authorities retaliated by removing the heads of the national and Paris police forces and dismissing two police union leaders. President Francois Mitterrand said on television that he regarded the protests as seditious and would not tolerate any challenge to the authority of the state.

Mitterrand Gets Corsica Security

AJACCIO, Corsica (AP) — France sent 3,000 extra policemen to Corsica for President Francois Mitterrand's 48-hour visit to the island, which has been plagued by separatist violence in recent years.

The Corsican National Liberation Front said last month that it would refrain from violence during Mr. Mitterrand's visit, which begins Monday. The group said its restraint reflected a hope that France's ruling Socialists would grant independence to the island. As part of their decentralization program, the Socialists have given Corsica limited autonomy through a locally elected regional council.

Despite a recent upsurge in bombings, there has been a significant decrease in terrorism this year. Only one person has been injured in the 232 bombings during the first four months of the year, and that was a suspected FLNC member wounded while allegedly planting a bomb.

Solidarity Radio Reported Seized

WARSAW (AP) — Ten persons were arrested in the southern city of Krakow when police raided a Solidarity radio transmitter and three printing shops, Polish television reports.

The report Saturday said the transmitter was taken off the air by the security forces and the man operating it was detained.

In the past, organizers of the clandestine Solidarity radio network have used timing devices to switch transmitters off and on in an effort to protect technicians. This time, however, police seized broadcasting equipment in a string of raids and arrested its leaders and organizers, including Zbigniew Romaszewski, the architect of the venture, the report said.

Ireland Weighs U.K. Vote Results

DUBLIN (Reuters) — The Irish government is expected to review its relations with Britain and Northern Ireland this week following the electoral success of both the Conservative Party and hardline Irish nationalists. The government, which is committed to the peaceful reunification of Ireland, faces a polarization of the Irish issue following Thursday's election.

Prime Minister Margaret Thatcher's landslide victory and the success of unionist parties in Northern Ireland pledged to remaining British, which captured 15 of the province's 17 seats, indicated a hardening of the unionist position.

However, Sinn Fein, the political wing of the guerrilla Irish Republican Army, gained a seat in the British Parliament. The gain by Sinn Fein, which is committed to ending British rule in Northern Ireland, showed a toughening of nationalist opinion as well.

EC Ministers Prepare for Summit

BRUSSELS (Reuters) — Foreign ministers of the European Community will meet Monday in Luxembourg to prepare for Friday's meeting of heads of state and government.

The ministers' main item for discussion is a West German plan to end economic crisis in the EC, mainly by cutting down on farm spending, which is expected to go over the budget this year by up to \$2 billion. Diplomats said the ministers were not expected to reach any decision but simply to lay the basis for decisions at the summit in Stuttgart.

West Germany's plan, submitted in a paper to EC governments last week, considers the issues of how to meet next year's increased bills and how to resolve the perennial problem of the size of Britain's contribution to the budget.

Accord Reached On Air Pollution

GENEVA (UPI) — Nations of East and West Europe, and the United States and Canada, have agreed to adopt national programs to reduce sulphur emissions causing long-range air pollution. But there was no agreement on a proposal by Finland, Norway and Sweden to reduce emissions 30 percent by 1993.

Officials said some countries argued that it was better for each government to do what it could without being tied to an exact figure. Agreement was also lacking on a proposal by Austria, West Germany and Switzerland that governments limit the sulphur content of light fuel oil and diesel oil to 0.3 percent.

The accord on national programs came Saturday at a four-day meeting of the executive group monitoring application of the 1979 Convention on Transboundary Air Pollution, which came into force in March after ratification by 27 nations.

For the Record

BELGRADE (AP) — Three more miners died Saturday of injuries they received in Tuesday's methane gas explosion in a coal mine in Aleksandrovac, bringing the death toll in the disaster to 24, the official press agency, Tasmis, reported.

PHILIPPE AUGOYARD, the French physician freed earlier this month from prison in Afghanistan, arrived Sunday in Paris from Bombay. He was captured in January while on a humanitarian mission in an area controlled by guerrillas opposing the pro-Soviet government.

CORRECTION: An article by a Soviet Communist Party Central Committee official, Nikolai Portnov, quoted in a Washington Post dispatch from Moscow and published on the front page of the International Herald Tribune on June 11, appeared in the weekly Moscow News, not in the New Times.

Preliminary Work Said to Start On Putting U.S. Missiles in Europe

By Drew Middleton
New York Times Service

BRUSSELS — Officials at the headquarters of the Atlantic alliance here report that preliminary work on deploying U.S.-made medium-range nuclear missiles in Europe is under way.

The officials said the United States expected to deploy 41 missiles this year as part of its effort to persuade the Soviet Union to agree at talks in Geneva to reduce the number of such weapons in Europe.

Sixteen of them are ground-launched cruise missiles that are to be deployed in Britain by the U.S. Air Force. One official said these weapons were nearing the installation stage. They will be placed on four trailers, each the size of a large gasoline tanker.

Report by Tass Assails NATO Communiqué

Readers

MOSCOW — Support for the deployment of new U.S. nuclear missiles in West Europe, expressed again at last week's NATO meeting, effectively rules out any prospect of reaching a mutually acceptable accord on curbing medium-range missiles, Tass said Sunday.

In a report from Paris, the Soviet press agency said the Western alliance's final communiqué contained hypocritical assurances about the North Atlantic Treaty Organization's desire for peace.

Tass said the communiqué "expresses support for U.S. plans aimed at further speeding up the unbowed arms race and at achieving military superiority over the USSR and the other Warsaw Treaty member-states."

NATO's refusal to take into account the nuclear systems of Britain and France, Tass said, was a further sign of unwillingness to pursue constructive negotiations at the arms talks in Geneva.

It was the United States, not the Soviet Union, that was pursuing a "nonconstructive, obstructive line" at all arms control negotiations, the agency said.

The Tass report, printed in Sunday's edition of Pravda, the Soviet Communist Party newspaper, also said NATO had confirmed that it would continue its "flagrant interference" in Poland and Afghanistan.

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Cranston Scores Upset Of Mondale in Poll of Wisconsin Democrats

By Marvin Schram

Washington Post Service

MILWAUKEE — In a stunning upset, Senator Alan Cranston of California has defeated Walter F. Mondale, the Democratic presidential front-runner, in a straw poll of delegates to the Wisconsin Democratic Convention, significantly boosting his long-shot candidacy.

Mr. Cranston won Saturday on the nuclear-freeze issue that has become the centerpiece of his campaign. He finished with 38.8 percent of the 2,035 votes cast, compared to 35.7 percent for Mr. Mondale and 21.8 percent for Senator Gary Hart of Colorado.

The defeat started Mondale strategists and could cause significant damage to the former vice president's candidacy.

Mr. Mondale's advisers had confidently predicted victory in this straw poll that has no official bearing on the delegate selection process for the 1984 national party convention. Anthony S. Earl, the Democratic governor of Wisconsin and a Mondale supporter, had predicted that the former vice president would win 50 percent of the vote.

Mr. Mondale, whose home state is neighboring Minnesota, had the support of most of Wisconsin's Democratic officials. Moreover, Mr. Cranston had set his sights on Wisconsin early, addressing a pro-freeze rally in September, campaigning in the state frequently and attracting endorsements from several of the most liberal activists in the state, which has a long progressive and liberal tradition.

Mr. Mondale's defeat was good news for Senator John Glenn of Ohio, a middle-of-the-road Democrat who has been gaining strongly on Mr. Mondale in national opin-

ion polls and who decided not to appear at the convention rather than risk an embarrassing defeat.

Final poll totals, according to state party officials, were: Mr. Cranston 789 votes; Mr. Mondale 777; Mr. Hart 443; Mr. Glenn 39; R. W. Askew, former governor of Florida, 14; Senator Ernest F. Hollings of South Carolina, 1 and undecided 22.

Mr. Hart's forces, who had been locked in a battle with Mr. Cranston to be a liberal alternative to Mr. Mondale, said they felt they had staved off what would have been a devastating defeat with a strong push in the last week that added to their candidate's vote total.

Mr. Cranston proclaimed that his victory "shows that I am one of the top three contenders. I think there are only three of us in the new tier ... Mondale, Glenn, Cranston."

Mr. Cranston said he had not expected to win the straw poll but thought he had an outside chance.

Mr. Mondale appeared stunned and was at times testy as he spoke to reporters after his defeat.

"As you know, I've had many good days in this campaign," he said. "This was not one of them." He said he does not plan any changes in his campaign, or his message. "What happened here, I'm not sure," he said.

Mr. Hart said he believes that it is now a four-person race and that he is one of the candidates in that group. He said he does not expect any major breakthroughs in his candidacy until 1984.

The straw poll, he said, shows that "the race is wide open. Front-runnership in the spring of 1983 means nothing."

Montreal Businessman To Lead Canadian Tories

By Les Whittington

Washington Post Service

OTTAWA — A Montreal corporate president, Brian Mulroney, has captured the leadership of Canada's major opposition party, the Progressive Conservatives, in a narrow victory over Joe Clark, a former prime minister.

Mr. Mulroney, 44, who has never held elected office, won Saturday by amassing 1,584 votes — 54.5 percent — to Mr. Clark's 1,325 votes — 45.5 percent — after nine hours of voting by delegates representing electoral districts across the country.

An advocate of free enterprise, Mr. Mulroney is considered on the right side of Canada's Tory party. He expressed the most pro-United States views of any of the eight candidates who competed for the party leadership, calling for an intensive effort to improve investment and trade ties and defending President Ronald Reagan's actions in Central America.

Mr. Mulroney is the first person from the French-speaking province of Quebec ever chosen to head the party, which traditionally has been strong among English-speaking Canadians, particularly in the western provinces. His election opens a good chance of improved relations between the French and English cultures, whose differences have been a constant source of internal friction.

Most observers think the Progressive Conservatives have a good chance of taking power in the 1980s. A national election is not expected for about a year, but Mr. Mulroney's party is currently far ahead of the Liberal Party of Prime Minister Pierre Elliott Trudeau in public popularity polls.

Mr. Clark was out in front in earlier ballots, but Mr. Mulroney gradually gained strength as lesser candidates dropped out, leaving their supporters to vote for others. Mr. Mulroney won on the fourth ballot.

Mr. Clark, 44, was plagued by a so-called "Anybody But Clark" campaign within his party.

There has been resentment about Mr. Clark's handling of his short-lived administration in 1979. The first leader of a Tory government in Canada in more than a decade, he was defeated by the Liberals in a vote of confidence in the House of Commons after only nine months.



United Press International

Brian Mulroney and his wife, Mila, at the Progressive Conservatives' leadership convention in Ottawa.

Another problem came from rightist elements of the party who objected to Mr. Clark's moderate positions on maintaining social-welfare spending at close to current levels and on compromising with the often-frustrated French Canadians in Quebec.

Mr. Clark had requested the election at a party convention in January after a large bloc of delegates voted against his continued leadership.

Mr. Mulroney has been president of the Montreal-based iron Ore Co. of Canada. He speaks fluent French as well as English and based his campaign on votes from the Conservatives in Quebec. After losing to Mr. Clark in the 1976 leadership contest, he declined to seek a seat as a member of Parliament.

Born into a poor family in a small Quebec town, he became a labor lawyer and became known publicly when he investigated corruption in a government inquiry into the construction industry in Quebec.

In Lima, Latest Obsession Is Talk of a Coup Economic and Political Trouble Prompts 'Terrible Sense of Impotence'

By Edward Schumacher

New York Times Service

LIMA — In this city of five million people, where politics is an obsession, there is much speculation that the Peruvian military might topple the government of President Fernando Belaunde Terry, who was elected three years ago.

Most people seem to agree that no such action is imminent. Still, it is a daily newspaper subject, and there are almost daily denials by military leaders and government officials that a coup is being planned. Mr. Belaunde's previous term as president ended with his overthrow by the military in 1968.

The talk seems to be a result of what one leading Peruvian called a "terrible sense of impotence."

The government, which took office in 1980 after 12 years of military rule, "started with incredible support," according to Julio Cotter, research director at the Institute of Peruvian Studies, a private social studies center.

But, unemployment is high, inflation is running at an annual rate of 150 percent and a leftist guerrilla group called Shining Path is increasing its activities. The government is trying to renegotiate a \$12-billion foreign debt.

A flood in the north has lasted six months and has damaged 60 percent of agricultural production, while a long drought in the south has forced thousands of people to migrate to overcrowded cities. The two disasters reportedly have caused a decline of almost 7 percent in the country's gross national product this year.

"Many people now think that the only way to get improvements is with force," Mr. Cotter said.

But Mr. Belaunde, 70, whose five-year term expires in 1985, has stressed that the fighting is centered in the department of Ayacucho, 200 miles (320 kilometers) southeast of the capital, in an area covering roughly 3 percent of the country's land mass and population.

Two weeks ago, a power blackout, which resulted from bombing by Shining Path, brought much criticism of Mr. Belaunde for not being tough enough.

The president imposed a 60-day state of emergency, which one newspaper poll said had 55-percent popular support. But it largely ignored — strikes, political meetings and criticisms of the government continue. Even so, many opposition leaders have the same view as a man in the crowd.

Some of the thinking inside the Peruvian military was indicated by a senior military leader, who said in an interview that Peru was "a new country and maybe not ready for democracy."

The leader, who asked not to be identified, said criticism was undermining the government led by Mr. Belaunde's Popular Action party. Historically, the official said, Peruvian coups have been generated by disgruntled civilians "knocking on the barracks doors." He said some civilians, particularly industrialists, were "already knocking."

Western diplomats say there is no consensus inside the military. The army, they say, has what Peruvians describe as activists, those

willing to take a more political role, and constitutionalists, those stressing the professionalism of the services. But the diplomats say they doubt even the activists in the army want to take over the problems faced by the current government.

Mr. Belaunde has treated the military delicately. Despite the economic crisis, he has maintained high military salaries and weapons purchases. This year, the air force is purchasing 20 Mirage-2000 fighter planes from France for a reported price of \$700 million.

The president also has slowly given the military free rein against the guerrillas in Ayacucho. The army reports that deaths have reached 854 this year, nearly half of them in May, when the army took over almost all the fighting.

About 2,000 people are accused of being guerrillas in jail.

Meanwhile, the United States, which largely severed its military

aid to Peru during military rule, was reported to be seeking to increase its assistance to the government.

Diplomats said the Reagan administration had included \$3 million in arms credits in the supplemental military-aid budget submitted to Congress for the current fiscal year, and had budgeted \$25 million for the 1984 fiscal year, which begins Oct. 1. The money reportedly is to be used for spare parts and light weapons.

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INTERNATIONAL HERALD TRIBUNE

Published With The New York Times and The Washington Post

But It's Only a Start

By changing only a single number, President Reagan has changed the direction of his arms control proposals in a constructive way. He was forced to change by public pressure, and Congress is now likely to reward him with more money to develop and test the MX missile. More such pressure will be needed, however, to alter the nuclear strategy of the United States in ways that provide both maximum security and maximum opportunity for a START treaty with the Soviet Union.

Taking his cue from the bipartisan Scowcroft commission, Mr. Reagan shifted in ways that may ultimately make for more stable arms competition — away from potentially vulnerable multi-warhead missiles toward smaller, single-warhead weapons that could more surely survive a surprise attack.

He raised his proposed limit on the number of each side's intercontinental missiles from 850 to about 1,200. It sounds paradoxical, but the increase, with a companion limit of 5,000 warheads for each side, would reward the building of smaller, better-dispersed weapons.

In the same spirit the president at least implicitly again rejected the Pentagon's desire to negotiate a reduction in Soviet missile "throw-weight" to the American level. Although the throw-weight of Soviet land missiles is now two and a half times that of America's weapons, such an explicit limit would require disproportionate changes in the Soviet arsenal. Besides, throw-weight is losing its significance as a measure of nuclear prowess; improved accuracy allows smaller warheads to inflict as much damage as large ones.

In other words, so far so good — but not yet good enough. As now amended, the Reagan proposals would require the Russians to re-

duce their intercontinental land- and sea-based missile force by half, from 2,350 to 1,200. And their big SS-18 and SS-19 land missiles would be cut by two-thirds, from more than 600 to 210. America's missile forces, however, would have to be reduced by only one-fourth, from 1,600 to 1,200. And limits on bombers and cruise missiles, in which the United States leads, would be relegated to the second stage of Mr. Reagan's proposed treaty.

However desirable such a multi-stage outcome may be, it will not be reached in one leap. The third party to these negotiations is technology, and it waits for no diplomat. The question now is whether the new American target of 1,200 missiles can lead to a compromise and perhaps even be fit into a revision of the unratified SALT-2 treaty within the next year, thus stimulating negotiations for further reductions in later phases.

The last Soviet proposal was for a combined limit of 1,800 missiles and bombers. That would amount to a reduction of more than 25 percent in Soviet forces and no significant U.S. cutback. It would certainly be an improvement on the present, merely voluntary observance of the original SALT-2 terms.

It serves neither security nor arms control to proceed with the MX. But if Congress persists in wanting to dole out MX funds in ways that prod Mr. Reagan toward an arms treaty, a SALT-2 revision is a reasonable next objective. If that fails, Congress still has about a year in which to kill the MX and insist on a crash program to deploy a more stable, more effective smaller missile by 1988-90.

Mr. Reagan has made a welcome new start toward START. But it's only a start.

—THE NEW YORK TIMES.

Thatcher's Triumph

Electoral politics is no longer following rules that had seemed for decades to be inherent in the Western industrial democracies. It was an iron law, or so we thought, that what counted was prosperity and above all employment. In both Britain and the United States, things have evidently changed. The experts warn earnestly against drawing parallels between the two countries' politics, but the temptation is irresistible at least in this respect.

In both countries, governments of the right came to power with explicit economic programs that have gone badly askew and sent unemployment to its highest levels since the Depression. But in both countries the opposition remains scattered and confused. In the United States Mr. Reagan and his Republicans still hold the political high ground. In Britain Mrs. Thatcher and her Conservatives have just won a tremendous victory.

In both countries the explanation seems to be that after a long period of mixed signals the voters have been offered a clear and recognizable concept of a national majority. These majorities are very middle-middle-class in tone — Mrs. Thatcher is shedding Tory aristocrats with conspicuous speed — and not very responsive to racial and ethnic anxieties. They appeal to a kind of patriotism that carries echoes of an older nationalism.

One real difference between the two countries' politics is the doctrinaire radicalism that has become entrenched in some of the British labor unions' influence in the Labor Party

steadily increased in the 1970s, eventually evoking a powerful and sustained national reaction to which Mrs. Thatcher owes much.

But while the scale of Mrs. Thatcher's victory is notable, it is important to observe that her popular vote on Thursday was slightly lower than in her first election four years ago.

This time it translated into an astounding majority of 144 seats in Parliament because the opposition was splintered. Whether Thatcher Conservatism now has a tenure of only one more term or something much longer will depend heavily on the ability of an opposition to pull itself together. The outlook for the Labor Party, now sunk deep in unthreded leftism, is not promising. There is more hope in the alliance of Social Democrats and Liberals; although it won few seats, it came very close to equalling Labor in the popular vote.

Mrs. Thatcher has been rewarded for a firm and coherent view of her country's purposes that a lot of British voters recognized and liked. There is a lesson in that for politicians not only in Britain. She has also tested the proposition that even in a country with a deep historic fear of unemployment, people can be persuaded to accept it when the alternative is high inflation. Mr. Reagan is likely to see a parallel to American politics there.

But perhaps an even greater and more triumphant vote awaits the politician who eventually finds a way to keep inflation down while employment goes up.

—THE WASHINGTON POST.

Other Opinion

London Writers Take Stock

The electoral system itself is in danger of being discredited. The prime minister sits in triumph in Downing Street not on a surge of popular support but as the result of urgent electoral arrangements. Her parliamentary majority has trebled, yet her share of the popular vote has actually diminished. Mrs. Thatcher and her jubilant supporters would be very unwise to shrug off this unintended wrong. Unfairness is dangerous.

—The Sunday Times.

It seems to me that [Mrs. Thatcher] has managed to find a formula that is going to make her extraordinarily hard to beat for a long time. The full formula, or as near as I can get to it, runs as follows: quasi-regal, authoritarian, laissez-faire populism. In short, **QUALF**.

A politician who has succeeded in turning herself into something like a queen is queering the pitch for her opponents in all sorts of ways. Their attacks can be made to sound disrespectful and impatriotic. Mrs. Thatcher is very good at conveying this, without saying anything out of the way.

The quasi-regal authority, in virtue of its own governing principle, must stop short of the actual working of the economy. It follows

that [it] can in no way be impaired, impugned or beamed by what may happen in a domain which it is prevented from ever entering. You can't hold it — and most of you clearly don't hold it — against the queen of laissez-faire if there are 3 million unemployed now. So by what right will you be able to hold it against her if, in four or five years' time, there are 4 or 5 million unemployed?

—Conor Cruise O'Brien in *The Observer*.

In a way, Mrs. Thatcher's Falklands war was the psychological equivalent of FDR's New Deal, restoring confidence and hope, for which she has been rewarded electorally, as he was, in spite of the fact that her great morale-boosting operation was just as expensively irrelevant to the real business of curing unemployment as was his.

—Peregrine Worsthorne in *The Sunday Telegraph*.

The country has come a long way, has learned leadership which does not flinch in the face of hard reality, or knuckle under to pressure from terrorist hunger strikers, Argentinian dictators or anyone else. With her stunning victory, Margaret Thatcher has confirmed that Britain is set on a new and confident course.

—The Sunday Express.

FROM OUR JUNE 13 PAGES, 75 AND 50 YEARS AGO

1908: Rifle Shoots Silently

NEW YORK — Mr. Hiram Maxim has given the first public demonstration of his noiseless firearm with a 32-caliber Winchester rifle, at the headquarters of the American Society for the Prevention of Cruelty to Animals, which seeks a weapon that will kill animals humanely. Mr. Maxim discharged the rifle several times in absolute silence, except for the click of the hammer and the impact of the flattened bullet on the target. His noiseless invention came to him as an inspiration while he was riding in a street-car. When he applied it in practice it worked like a charm. He has been approached unofficially on behalf of the German Government, but his invention, so far, has been patented only in this country.

1933: Pegging of Dollar Sought

LONDON — A Franco-British drive to obtain American adherence to the pegging of the dollar and pound, at least while the World Economic Conference is in session, was unleashed in earnest by the governors and experts of the Bank of England and the Bank of France in triangular currency negotiations [yesterday] with the Federal Reserve and the United States Treasury spokesman. This first European offensive failed to bridge the monetary key-log in the economic jam. Instead, the dollar's rapid fall during the day served to heighten the Franco-British insistence that the pegging of the dollar and pound must precede any tariff reductions and that responsibility for inflation rests with the United States.

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The Trouble With Thinking in Arrows

By William Pfaff

BOSTON — A certain militarization of thought is apparent among policy-makers in today's Washington, and among supporters of the foreign policy of the Reagan administration in such intellectual centers as Boston and New York. The U.S. intervention in Central America is defended with arguments deriving their force from strategic calculations which imply preparation.

One is told that Central America and the Caribbean dominate vital American communication corridors, and reminded that in the last war far more allied shipping was sunk in the Caribbean than in the North Atlantic. The importance of the Panama Canal is emphasized, as is Mexico's and Venezuela's oil. One might easily conclude that Washington expects the balloon to go up. Some foreigners, unfamiliar with American political rhetoric, have already done so.

But the truth is that war is not really expected. If Washington seriously expected war, Mr. Reagan, Secretaries George Shultz and Caspar Weinberger, Ambassador Jeane Kirkpatrick and the others of the inner policy circle would conduct themselves with a great deal more urgency than they show today. They talk about Central America in the language of global military strategy and military threat because they want to justify their policy, and the strategic vocabulary is convenient, direct and presumably convincing. Drawing geo-strategic arrows on a map makes complicated things simple.

It is dangerous for exactly that reason. War really is not the issue, and arrows on the Caribbean and Central American maps do not represent Russian fleet landings, the advance of Soviet divisions upon the Canal and the Mexican oilfields. What is happening in that region is essentially political, not military.

The development of guerrilla movements and insurrections is a political phenomenon. They may certainly be strengthened or accelerated by external support. There must, however, be a political foundation for them to acquire the proportions they have in El Salvador today and that the Sandinist movement possessed when it toppled the government of Anastasio Somoza.

The United States might have learned about the indomitable political base at the Bay of Pigs in 1961, when the landing of a Cuban exile force was supposed to touch off a popular uprising against Fidel Castro's misrule. It did not. Che Guevara learned the same thing in Bolivia in 1967. He discovered, at fatal cost, that to take a column of armed men among even the most miserable peasant population does not necessarily cause them to rise against their rulers. They may simply turn away in apathy and suspicion.

What has been happening in El Salvador and Nicaragua follows from political and communal origins, allowing the Soviets and Cuba to draw an advantage. It does not follow that equivalent political conditions exist in adjoining countries, but that is what thinking with arrows suggests.

The arrows point to Mexico. But Mexico is an important and serious country which went through a profound revolutionary experience between 1910 and 1921 and has developed specific political institutions which have served it for more than half a century. It has a great many problems, but there is no evidence that the mass of Mexicans are looking to Cuba, Nicaragua or the Soviet Union for their solution.

There is considerable reason to think that if armed foreigners were to introduce themselves into southern Mexico with a subversive mission, they would be handed over to the police and locked up in an uncomfortable jail.

The damage done by thinking in arrows is first of all to those who indulge in it. They are the ones who risk coming to believe that the arrows really do mean, in political matters, what they do on the military maps.

They are saying nothing new. As long ago as

1944, in the *Partisan Review* in New York, a man who might be considered the godfather of the neo-conservative intellectuals of the Reagan administration, James Burnham, wrote in warning about Soviet power flowing "outward, west into Europe, south into the Near East, east into China, already lapsing the shores of the Atlantic, the Yellow and China Seas, the Mediterranean and Persian Gulf ... proceeding outward by Absorption (the Baltic, Bessarabia, Bucovina, East Poland, Domination (Finland, the Balkans, Mongolia, North China and, tomorrow, Germany), Orienting (Influence (Italy, France, Turkey, Iran, Central and South China) ... Appasement and Infiltration ..."

Well, it was all very dramatic, but it didn't happen. Russia took Eastern Europe with the Soviet army. The rest of those arrows pointed north, so far as the actual extension of Soviet power was concerned. And Eastern Europe today is no asset, but rather a permanent, unmeasurable threat to the security, and conceivably the survival, of the Soviet Union.

One really does wish that Ambassador Kirkpatrick, Norman Podhoretz, Secretary Weinberger and the president himself would learn more about contemporary history.

International Herald Tribune
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Thatcher: Time Now to Attend to World Affairs

By James Reston

LONDON — A Washington reporter in London for the British elections can hardly avoid comparisons between Prime Minister Margaret Thatcher and President Reagan. They are both successful conservative politicians, but their styles of leadership differ considerably.

The British Socialists ran such a bad campaign here that it is easy to minimize just how good Margaret Thatcher was, and what personal qualities accounted for her success.

Unlike President Reagan, she left no doubt that she was running for a second term in office. She was not intimidated by her failures, but led the charge against her opposition.

She did not make speeches in the British campaign written by somebody else and recited from invisible prompting screens on television. She was out front day and night answering questions from the television anchormen and the call-in ques-

tions from the public. She was careful to avoid the harder questions of newspaper reporters but otherwise took on all comers, with not an answer or a hair out of place.

This is some lady and clearly a risk taker to be reckoned with in the coming struggles with the Soviets and within the Western alliance.

She was not the favorite choice as leader of the Conservative Party here. She captured the party. Like Mr. Reagan, she took office with a conviction that the country had gone slack, and that the unions and big business had to shape up.

Also like Mr. Reagan, Mrs. Thatcher tried to impose simplistic solutions in the early days of her administration. She ended up with more than 3 million unemployed.

But unlike Mr. Reagan she stuck to her philosophy and got rid of the

cabinet members who disagreed. She came to terms with President Mitterrand of France and Chancellor Kohl of West Germany on the importance of maintaining a nuclear balance of power with the Soviets. She supported the United States and the NATO alliance and the European Community, and on these issues she won the most spectacular British elections of the last half century.

Her position now is quite different from Mr. Reagan's, standing in Washington. She is not very popular here personally, but she is respected by all parties, whereas Mr. Reagan is more popular but not quite as respected by his opposition.

The question now is what Mrs. Thatcher will do with her victory. First, unlike Mr. Reagan, she is changing her government. She is reappraising the successes and fail-

ures of the last two years and planning for the future.

She has some hopeful things going for her. Mr. Reagan in Washington and Chancellor Kohl in Bonn share her conservative economic philosophy. They are agreed on maintaining a nuclear balance of power in Europe with the Soviets — particularly on deploying cruise and Pershing-2 missiles in Europe beginning in December. On this critical issue they have President Mitterrand of France at their side.

It is not clear what Mrs. Thatcher will do about bringing the European nations together, or, how she will respond to Mr. Kohl's mission to Moscow at the end of this month.

Mr. Kohl is going there for his own commercial and political reasons, but also to propose a Reagan-Andropov summit meeting. Mrs. Thatcher apparently has her doubts about the wisdom of this, and so do the French.

In the next couple of weeks, after the pope's visit to Poland, the allies will be reviewing East-West relations and particularly the nuclear weapons negotiations in Geneva.

In recent months Prime Minister Thatcher has been concentrating on domestic political and economic problems. Now that she has won and is reorganizing her cabinet, the chances are that she will pay more attention to world affairs.

There is some talk in official quarters here that she will soon want to discuss the nuclear problem personally with Mr. Reagan. She is free now of domestic politics, with a very large majority in the House of Commons, even at the point when Mr. Reagan is faced with the question of another term in the White House.

Mrs. Thatcher and her aides are interested in this, for while they have agreed on economic questions they have not yet come to terms with Washington about East-West nuclear or political relations, and they have yet to discuss the growing crisis in the Middle East.

A real solution would require not only a leash on greedy private bankers but removal of protectionist barriers so as to open U.S. and European markets to Third World exports.

It would involve a rational consolidation of existing international debts over a long term. It would require major banks and their stockholders to "eat" some considerable losses.

Until the debt bomb explodes, none of that is likely to happen.

The Washington Post

Influential Diplomat Leaves Bonn for Home

Swedish 'Insider' Helped Arrange First West German-Soviet Talks

By James M. Markham

New York Times Service

BONN — The comingings and goings of ambassadors are not usually of much moment in Bonn. But a few days ago Sven Backlund left the post he had occupied at the Swedish Embassy for more than a decade, depriving West Germany's capital of one of its wittiest aphorisms and one of its true insiders.

"You can amuse yourself with a specialty; you can amuse yourself with stamps; with silver," the lanky Swede said. "I amused myself in knowing things."

"And then it tends to become an obligation, because if people think you are an expert, you have to have the right answer," he added, finishing with his customary prolonged chuckle.

It was a vintage bit of self-effacement from a diplomat who was credited with discreetly sealing the first Soviet-West German contacts that led to the so-called Ostpolitik of Willy Brandt's chancellorship.

Mr. Backlund was an envoy who remained on intimate terms with the leadership of the West German Social Democratic Party and who also was well-equipped to explain the intricacies of the United States to influential Germans. He also played a mean game of poker in his manorial residence by the Rhine.

The timing of his leave-taking, in his 66th year, came three months after the curtain was rung down on the Social Democrats' 13-year run in power in West Germany.

The West Germans, he said, seem so at ease with their place in the world that "the only thing that can disturb them is boredom."

Mr. Backlund saluted Mr. Brandt as a rare ambassador "who knew the Federal Republic of Germany better than many German politicians."

When the two first became friends in West Berlin in 1964, Mr. Brandt was the city's Social Democratic mayor and Mr. Backlund was the Swedish consul general.

As a Swede, Mr. Backlund had a natural entree with Mr. Brandt and Herbert Weimer, deputy chairman of the Social Democratic Party, both of whom took refuge from the Nazis in neutral Sweden.

"After the war, when you had to sort up build up German democracy," Mr. Backlund said, "you need

British Polaris Tested

The Associated Press

CAPE CANAVERAL, Florida — Two Polaris missiles were fired successfully Saturday from the HMS Revenge, one of Britain's four Polaris-class submarines, in the vessel's second series of test launches in the past week.

LETTERS TO THE EDITOR

Communist Strength

Regarding "Intervention in Latin America: A Pessimist's View" (IHT, May 21) by William Pfaff:

The criticized view that Russians and Cubans possess and can lend out to their clients "a degree of political military potency no one else commands" is neither frightening nor pessimistic, but, unfortunately, merely realistic.

The Russians and the Cubans do not have a Congress, a critical press, a public opinion to worry about, and hence support for their clients can be total, sustained and practically unlimited, even if it means hardships, shortages and other misery affecting their own people. U.S. support has in all cases been half-hearted, qualified, conditional, unsustained and abandoned halfway through.

What was demonstrated 10 years ago in Sargon is not what is being projected by the warped minds of some writers, but simply this: If a nation does not have a will to prevail, or in the face of political and media opposition is unable to muster that will, the results will be fatal to the country in which it intervenes, and disastrous to itself.

R. EINHORN
Benidorm, Spain

Liberals Can Hope

Regarding "Gloomy Report on Future Called 'Dead Wrong'" (IHT, May 31) by Philip J. Hilts:

The threat to tropical rain forests is real and immediate. The consequences for mankind of deforestation in the tropics are of utmost gravity. These facts are recognized by the preponderance of ecologists who have studied the subject firsthand, and are endorsed by the World Wildlife Fund and its

and the Social Democrats, will form the government in Great Britain in the not too distant future.

WILLY DE CLERQ,
President, European Liberals
and Democrats
Brussels

A General Spared

Regarding "Court in East Berlin Sentences SS Officer to Life for Massacre" (IHT, June 8):

It is satisfying to note that at least one man was judged for the massacre of innocents at Ondra-sur-Giane. It is only a pity that his commanding officer, General Heinrich Lammeyer, was allowed to die peacefully in bed, and this despite the fact that his whereabouts had been known since early 1968 to the French Consulate in Düsseldorf, where he lived and operated a successful painting business under his own name.

It is correct, unfortunately, that there is no extradition treaty between West Germany and France. But this did not stop the French from kidnapping their own nationals during the Algerian war days to bring them to justice in France.

S.C. SCHIFFE
Paris

Vanishing Forest

Regarding "The New (Short) Wave of Travelers" (IHT, April 6):

Clearly, establishing worldwide listening figures and trends is a hazardous business at the best of times. But after more than 35 years of international survey research experience (often in conjunction with Voice of America, Deutsche Welle and Radio Netherlands), the BBC for one is confident that the accuracy of its audience data is as high as it can be in the circumstances.

This evidence indicates that the

International Union for Conservation of Nature and Natural Resources, Herman Kahn, Julian Simon and the authors of "Global 2,000, Revised" are themselves "dead wrong" in suggesting that we have nothing to worry about. Even government reports to the United Nations acknowledge that tropical forests are disappearing at the rate of 76,000 square kilometers a year. We believe independent scientific surveys that say that the combination of destruction and degradation of these forests is closer to 200,000 square kilometers.

With them are vanishing the flora and fauna they shelter — much of it unsupervised — and which is of irreparable value to humanity.

One may debate whether it will take 50, 100 or 150 years for the tropical forests to go at present rates.

The thing to remember is that if they go they are gone forever. We still can prevent this catastrophe, but not if we are lulled into the complacency of Kahn and his co-religionists.

GRAHAM MYTON,
British Broadcasting Corp.,
London

The BBC's People

Regarding "The New (Short) Wave of Travelers" (IHT, April 6):

The threat to tropical rain forests is real and immediate. The consequences for mankind of deforestation in the tropics are of utmost gravity. These facts are recognized by the preponderance of ecologists who have studied the subject firsthand, and are endorsed by the World Wildlife Fund and its

and the Social Democrats, will form the government in Great Britain in the not too distant future.

The first large-scale massacres took place in the period after the Cyprus convention of June 4, 1878, in which Disraeli, then the British prime minister, promised the Turks that he would persuade the Russians to evacuate the occupied territories of the Ottoman Empire before the promised reforms (favorable to the Armenians) were carried out. In return for the services rendered by Turkey to Disraeli and Britain, Cyprus was to be handed over to the British.

The consequence of this was the massacre of hundreds of thousands of Armenians between 1878 and the end of the century, when the genocide took on a new dimension. Whether they killed 1,500,000 Armenians or slightly fewer — or, as appears to be historically established, more than half of the 2,100,000 Armenians living in Turkey before the 1915 massacres — is beside the point. The importan-

ce of the 1894-1896 massacres. The protest was that in 1894 some Armenians had refused to pay a tax. In 1896 the faithlessness of Lord Salisbury was to blame. Further massacres took place, mainly in 1897, 1898, 1901 and 1904.

Partially Armenian by descent, I was born in France of a French mother, have always lived in France, and remain outside any political movement. I totally disapprove of all forms of terrorism, and harbor no feelings of contempt toward the Turks of today, toward the fellow countrymen or co-religionists of the late Disraeli. But 1/2 million massacred people demand the truth. Nothing more. M.D. INDJOUJDJIAN, Paris

Letters intended for publication should be addressed to the editor and contain the writer's signature, name and address. Brief letters receive priority, and letters may be abridged. We cannot acknowledge all letters, but we value the views of the readers who submit them.

U.S. Pioneer-10 to Leave Solar System

By Thomas O'Toole

Washington Post Service

WASHINGTON — The small silver and gold spacecraft called Pioneer-10, which left Earth 11 years ago, will leave the solar system on Monday, becoming the first man-made spacecraft that has journeyed beyond the planets.

At 1 P.M. Greenwich Mean Time on Monday, Pioneer-10 will move beyond the orbit of the planet Neptune, 2.8 billion miles (4.5 billion kilometers) from Earth, and into the void that is no longer interplanetary space.

Although Pluto normally is regarded as the outermost of the nine planets that circle the sun, its eccentric orbit carried it inside Neptune's

orbit's more circular orbit three years ago.

Moving through airless and frictionless space, where the chance of collision with another body is so remote that it is beyond imagination, Pioneer-10 could continue its journey for infinity. Scientists have estimated Pioneer's shortest possible lifetime at 2 billion years and then only if it encounters a shower of cosmic dust or cosmic rays that could corrode its 570-pound (1,254-kilogram) aluminum frame that it began to break up.

Space scientists have charted Pioneer's course for the next 91 years and calculate that its first encounter with a star will occur in 10,507 years, when it passes the small, red Barnard's Star at a distance of 3.8 light years.

Among the largest stars it will encounter is Altair, which is 10 times brighter than the sun. Pioneer will pass Altair in about 800,000 years. The spacecraft's nearest encounter will be with a "flare" star named Ross-248, which it will pass in 32,000 years at a distance of only 3.2 light years.

By the time Pioneer-10 makes its first stellar encounter, it will have long since lost radio communication with Earth. Its 8-watt radio signal is so weak now that, by the time the transmission reaches

Inquiry on Dioxin Contamination In U.S. Expands to Add 4 States

New York Times Service

NEW YORK — Officials investigating sites in New Jersey where the toxic chemical waste dioxin might be present in dangerous concentrations have expanded their search to 19 chemical manufacturing sites in New York state outside New York City, Pennsylvania, Maryland and West Virginia.

Testing is to continue at the closed Diamond Shamrock chemical plant in Newark, New Jersey, where U.S. Environmental Protection Agency inspectors first found high levels of dioxin in soil samples, and at nine other New Jersey sites.

Officials said more study of

company records and further tests at other sites would be needed before the widespread presence of dioxin could be confirmed.

The Eastern companies were among 91 listed in a 1980 EPA report as pesticide and chemical producers around the country that might have caused contamination by dioxin, which the EPA calls "the most acutely toxic compound made by man."

Dioxin concentrations of up to 1,200 parts per billion were found at the Newark site, with several of the samplings having 500 parts per billion. A safe concentration is less than one part per billion.

Officials said more study of

Soviet Union Replaces Envoy to E. Germany

The Associated Press

MOSCOW — The Soviet Union named a new ambassador to East Germany on Sunday to replace Piotr A. Abramov, a long-time diplomat who was recalled to Moscow last month.

Tass said Vyacheslav I. Korchagin, 64, a former diplomat with some experience in East Germany, will replace Mr. Abramov, 71.

Czechs Quit Psychiatric Association

By Bryce Nelson

New York Times Service

NEW YORK — The Czechoslovak Psychiatric Society has joined its counterpart in the Soviet Union in withdrawing from the World Psychiatric Association.

The Czechoslovak action — disclosed recently to member associations — coupled with a similar Soviet step announced in February, has prompted some association leaders to question whether the group's ability to carry out its functions has been damaged.

The Soviet and Czechoslovak groups both asserted that the association had been turned into a political, rather than a scientific, forum by American psychiatrists.

But psychiatrists in the United States and several other Western countries — particularly Britain, France and Denmark — say the Soviet and Czechoslovak withdrawals stem from Western efforts to focus attention on what the West calls the continued use of Soviet psychiatry in stifling political dissent.

Dr. Harold M. Visotsky, the chairman of the American Psychiatric Association's International Committee on the Abuse of Psychiatry and Psychiatrists, said he felt it was necessary to examine Soviet misuse of psychiatry, even if it led to the withdrawal of some nations from the world body.

Mr. Birk, widely regarded as India's wealthiest man, was taking his morning walk in London when he became ill. He was taken to a hospital, where he was pronounced dead. The Hindustan Times newspaper, owned by the house of Birk, was staying when he was assassinated in 1948.

Mr. Birk, chairman of the newspaper, said his father would be cremated Monday in London and the ashes returned to India.

The president of India, Zail Singh, in a message to the family,

2 U.S. Presbyterian Groups Unite

Washington Post Service

ATLANTA — The Presbyterian church, which split over slavery during the Civil War, has been reunited, making it the fourth largest Protestant denomination in the United States.

Ending nearly 50 years of negotiations, 988 church commissioners voted Friday to merge the 823,143-member Presbyterian Church in the United States, the southern body, and the 2,351,119-member United Presbyterian Church in the U.S.A., the northern church. They formed the Presbyterian Church (U.S.A.).

The decision Friday was expected. Both groups overwhelmingly approved the merger plan a year ago. Still, officials expect that about 40 of the southern church's 8,975 congregations may withdraw as a result of the merger.

The split in Presbyterianism occurred in 1861. Southern churches were asked to pledge "unabated loyalty" to the federal government. They refused and formed the Presbyterian Church in the Confederacy.

Seven small U.S. Presbyterian denominations remain split, mostly because of theology.

The decision Friday was expected. Both groups overwhelmingly approved the merger plan a year ago. Still, officials expect that about 40 of the southern church's 8,975 congregations may withdraw as a result of the merger.

The vote in the southern church appeared to be unanimous. In the northern assembly, at least one dissenter said she was uneasy about provisions for affirmative action in the merged church.

Mr. Birk, widely regarded as India's wealthiest man, was taking his morning walk in London when he became ill. He was taken to a hospital, where he was pronounced dead. The Hindustan Times newspaper, owned by the house of Birk, was staying when he was assassinated in 1948.

Mr. Birk had gone to London on June 1. At 89, he remained engaged in numerous business activities, and "it could be properly be

said that he died in harness," The Hindustan Times said.

■ Other deaths:

L.P. (Red) Dawson, 76, former head football coach at Tulane University of Louisiana and Pittsburgh University, Friday in Ocala, Florida.

Jenny Serrys Bradley, 97, the Belgian-born Paris-based literary agent instrumental in the U.S. publication of French writers such as André Gide, André Malraux and Antoine de Saint-Exupéry, June 3 in Cap d'Antibes, France.

Charmion von Wiegand, about 85, an abstract artist who translated the writings of the Dutch artist Mondrian and wrote about him, Thursday in New York.

KENT

Fresh. Calm. Mild.

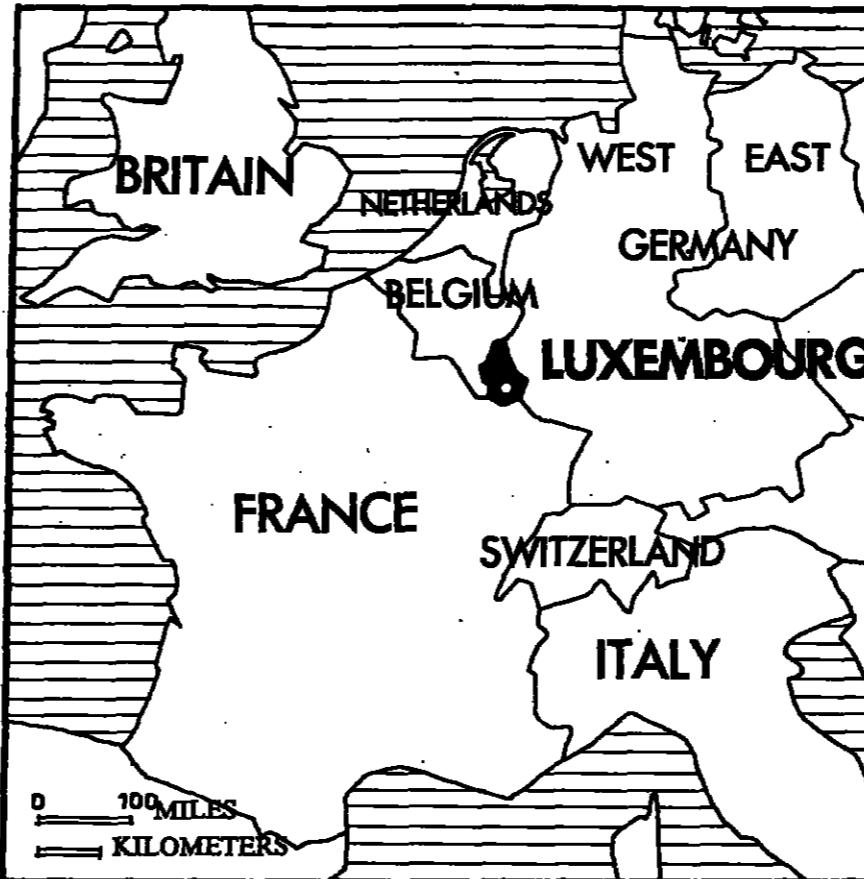
KENT. The taste you'll feel good about. KENT. The mild, international cigarette.

BANKING AND FINANCE IN LUXEMBOURG

A SPECIAL REPORT



Central Luxembourg city.



Isabel Corr-Hawkins/WIT

Debt Share: \$98 Billion in East Europe, Latin America

Special to the IHT

LUXEMBOURG'S position at the heart of the European Community has insulated it from the worst of the international debt crisis. The most recent figures from the Luxembourg Banking Commission show that at the end of the third quarter of 1982 the center's banks had 7.6 percent of their assets in Latin America and 4 percent in Eastern Europe. The overwhelming bulk of their assets, in fact 43.6 percent of the total, are concentrated in the industrialized countries of Western Europe.

But, bankers say, the statistics do not tell the whole story. "The percentage figure may be large," the managing director of one of the center's most important West German banks said. Luxembourg banks have \$64 billion out to

Latin America and nearly \$34 billion in Eastern Europe.

The Grand Duchy's bankers have tried to turn the sovereign debt problem to their advantage by stepping up their campaign for a more generous tax treatment of their provisions. Generally, the Luxembourg tax authorities' attitude to provisions has been significantly harsher than that of other nationalities. For instance, Swedish banks are allowed to make general provisions of 4.5 percent, while West Germany allows its banks to make tax-free provisions of up to 40 percent on specific risks. By contrast, the Luxembourg tax authorities allow banks to make tax-free provisions of 1½ percent on unsecured credits. The banks are not allowed to make tax-free general provisions or tax-free provisions against sovereign risks.

The banks' efforts to increase provisions are endorsed by the Grand Duchy's banking commissioner, Pierre Jaans. He wants the banks under his supervision to set aside as much as possible as the fiscal authorities will allow them. "But," he said, "as long as the banks who make provisions do not pay too much in the way of dividends it does not really matter whether they make specific or general provisions. We will only know in retrospect who has been overprovisioned." In Mr. Jaans's view that would be to err on the side of virtue. "Banks are not capitalized enough," he said. "We should be able to find some way of returning the provisions to the banks rather than taxing them all away."

Luxembourg bankers are becoming rather impatient with the slowness of the fiscal authorities' response.

Part of the reason for the authorities' caution is the critical importance of bank taxes to the Grand Duchy's budget. In 1981, 38 percent of all the government's direct fiscal income came from the financial sector.

The Luxembourg bankers remember that it took the tax authorities more than two years to find a solution to the problem of profits due solely to the depreciation of the Luxembourg franc against the dollar and the West German mark. The Grand Duchy's largest bank, Deutsche Bank Compagnie Financière Luxembourg, reckoned that its tax liability, because of that problem, would have exceeded 100 million marks in 1982. "Yet, despite the magnitude of the problem, it

(Continued on Page 16S)

Growth Strategy: A Marked Shift To Retail Banking

By Carl Gewirtz

BANKS IN Luxembourg, like those everywhere in the industrialized world, are shifting strategy to minimize the *quantity* of new business and maximize the *quality*.

In banking terms, this translates into de-emphasizing the growth of the balance sheet while expanding earnings. And profits these days mean fees rather than revenue generated from the difference between interest received on loans and paid on deposits.

In short, banks here are moving away from their overwhelming reliance on wholesale banking and into private, or retail banking. With a banking secrecy law as strict as Switzerland's, Luxembourg bankers believe they are well placed to compete for a larger slice of this lucrative segment of the market.

Bankers here reason that private clients, or in the jargon "high net-worth individuals," are ready to diversify away from their traditional haven in Switzerland.

Recent, albeit aborted, moves in Switzerland to alter the banking secrecy code and the failed attempt to tax fiduciary accounts have driven depositors to diversify their holdings out of Switzerland. In addition, bankers here report, fees charged by Swiss banks compare unfavorably to those charged in Luxembourg. And, not least, services offered by the Swiss are no longer very personalized—leaving room for Luxembourg to improve its own services and, thereby, attract unhappy Swiss clients.

Swiss bankers do not refute these criticisms. They say usefully that their business has been perhaps too good, resulting in bad service. But if Luxembourgers point to the threat of a weakened secrecy code in Switzerland, the Swiss point out that Luxembourg is targeted by what they call the bad economic and financial reputation of Belgium, to which Luxembourg is tied in an economic and monetary union.

Luxembourg itself has problems. ARBED, once the pride of Luxembourg, is in desperate financial straits, which could have an impact on the local banks that have very large loans outstanding or on the labor market if taxes have to be raised to finance the state company's survival.

As for the link with Belgium, it is not clear how tight that union actually is. The Luxembourg government made no secret of its outrage last year when Belgium unilaterally devalued its franc and, thereby, also the value of the Luxembourg franc.

But whereas last year Luxembourg had no choice but to follow Belgium's lead, today the government has in place at least the theoretical framework by which it could function independently in the monetary field. This is a result of the inauguration this month of the Luxembourg Monetary Institute, which, despite its name, looks very much like a central bank.

Luxembourg officials note that planning for the institute began in 1979, when European leaders began talking about creating a European Monetary Fund and it was realized that Luxembourg would not be able to have its own seat since it lacked the institutional symmetry—basically a central bank—of its Common Market partners.

While officials insist that it would be wrong to interpret the creation of the institute as a threat to the continued monetary union with Belgium, they do acknowledge that Luxembourg has the infrastructure to go it alone and that the institute will be the exclusive international monetary representative of Luxembourg.

The institute will replace the Banking Commission as the Grand Duchy's banking supervisory authority, it will hold the external assets—gold and the quota in the International Monetary Fund—and handle the liquid reserves of the government as well as issue notes and coins. It will also regulate credit creation through ratios imposed on the volume of domestic loans banks can make. But unlike a central bank, it will not lend money to commercial banks through operating a discount window or a Lombard facility (loans against collateral).

In any event, that would be minimal since the bulk of Luxembourg banking activity is foreign. Only 13 of the 115 banks operating here are Luxembourg-Belgian institutions. The 30 West German banks constitute the largest national group, followed by 14 Scandinavian banks.

An overwhelming 87 percent of the deposits at the banks are in foreign currency and despite the desire to expand into private banking only 14.4 percent of these foreign currency deposits come from non-banks, virtually unchanged from a year ago.

The bulk of Luxembourg's banking activity up to now has been the so-called wholesale business—buying deposits in the interbank market and using those funds to make loans. Almost 70 percent of that lending has

(Continued on Following Page)

German Presence Still Dominates Euromarket Activities

By Vivian Lewis

THE WEST GERMANS, nearly two decades ago, invented the Luxembourg Euromarket. And they still dominate it today. With 30 banks, the Germans are the leading nationality on the Luxembourg banking scene. Five German banks make up the largest institutions in Luxembourg, with Deutsche Bank, Luxembourg, in the lead. The four leading Luxembourg banks are ranked sixth through tenth.

So it is hardly surprising that German banks tend to get their way in Luxembourg, for example in negotiating their taxes. As one banker said, "If the Luxembourg authorities make too many difficulties about the provisions we have made, we can always threaten to leave."

Giving teeth to those threats are some other characteristics of German banks in the Grand Duchy, like the fact that they are not very profitable. Although in Luxembourg accounting, that may only mean that they are strong enough not to be forced to show high earnings and pay taxes on them. According to a comparative study by Paribas Jacques Poos—for 1981—in terms of return on assets or return on equity, as well as taxes paid, the German banks are merely average.

Signs of disaffection are not hard to find—although they may be merely symbolic. The Landesbank Stuttgart was one of the banks that closed its doors in Luxembourg. Two leading German banks, West LB International (ranked fifth) and Commerzbank International (ranked third) at the start of

1983 switched the currency in which they keep their books from Luxembourg francs to German marks.

The international business of German banks, whose share at the end of 1982 was 46 percent of the total, down from 51 percent a year earlier, is also moving away from Luxembourg. (In absolute terms there was a modest increase from DM 32.1 billion to DM 32.6 billion.) The London market, where German banks operate through branches rather than subsidiaries, almost certainly took up the difference. Branches booked 14.3 billion DM, up from 9.9 billion, at the end of 1981. This amounted to 20.3 percent of the total, against 15.7 percent a year earlier.

For German borrowers, according to the Bundesbank, Luxembourg is still the place to go for foreign loans. At the close of 1982, 45 percent of all short-

term loans from non-domestic banks to German corporate clients were done out of Luxembourg. The figure for long-term loans was 32 percent. Presumably, some of the lending was by non-German banks.

Various factors have made German bankers shy away from their previous commitment to Luxembourg. The devaluations of the Luxembourg franc have added to costs. To maintain their capital at 3 percent of DM loans, banks have had to add to equity or issue new subordinated loans, all of which costs money. To match the currency in which they keep their accounts to the currency in which they lend, some German banks are using the mark. But other German bankers dislike the trend. "We are a Luxem-

(Continued on Page 16S)

After Ambrosiano: The Case for Rules

BANKING COMMISSIONER Pierre Jaans is perfectly frank about it: "In a way we have been fairly lucky. Had Roberto Calvi wanted to open a bank in Luxembourg before his first condemnation, it would have been difficult to say 'no.' His reputation and credit standing were good and we would have had to grant a banking license."

As it is, Mr. Calvi's Banco Ambrosiano never did get a license to operate a bank in Luxembourg. All it managed was the establishment of a holding company, Banco Ambrosiano (Holding) S.A., which opened offices at 25a Boulevard Royal. The offices and the brass plaque are still there on the fourth floor, although the only people behind the doors now are court-appointed auditors.

The holding company, non-bank though it may have been, still managed to draw a blue-ribbon group of 88 interbank lenders among them 12 Luxembourg banks. Yet, the victim banks are not claiming that they failed to realize that Ambrosiano in Luxembourg was not in fact a bank. "If a person in a bank was victim of this confusion, he could not be a person dealing with finance," Mr. Jaans said. "He might be a chauffeur, perhaps."

This did not make Mr. Jaans's task any easier. While he said that he never expected Banco Ambrosiano "to sign a blank check" to pay back its loans, "we expected—just people did at the time—that they would sort out the problem and see what they could do financially." So the Luxembourg authorities, like Ambrosiano's creditors, were surprised when nothing of the sort occurred.

Mr. Jaans reacted with speed to protect against the potential for inviolable distinction between banks operating on the interbank market and against the tarnishing of the good name of the "place." Other Italian banks working through holding companies (they had operating subsidiaries in Luxembourg as well) were required by the commissioner to provide undertakings, not necessarily public, that they would stand behind their subsidiaries, although held through holding companies, for the sake of "credibility." It was left up to the banks what form the parent guarantee would take.

Mr. Jaans' actions were lauded by the Italian central bank, and plans are now afoot to restructure some of the four Italian banks using holding companies. Mr. Jaans thinks that the incident actually strengthened Luxembourg's reputation for sound banking, although he said that "an American regional bank that intends anyway to cut its interbank lines might use Ambrosiano" to cut Luxembourg out.

"It was an interesting story," said Klaus J. Zipp, head of the Dresdner Bank Luxembourg subsidiary, one of the losers. "Our customers did not react negatively. And now it has dispelled as an issue of interest."

"I don't think Ambrosiano was a major problem for any of the American banks here," said Oswald von Goede, at a Chase Manhattan.

Another banker dismissed the whole thing: "Ambrosiano had more to do with crime than with banking," he said. But Eikehard Stork, head of

Luxembourg as a Financial Center

Development of Financial Assets 1968-1982

Development of Total Assets

Year End	Number of Banks	Total Assets (billions of Belgian francs)
1968	26	90
1969	32	136
1970	37	236
1971	44	343
1972	53	517
1973	75	832
1974	78	1,067
1975	80	1,478
1976	80	1,709
1977	90	1,852
1978	97	2,509
1979	107	3,203
1980	111	3,917
1981	115	5,081
1982	115	5,987

Geographical Distribution of Total Assets in Respect to Parent Companies

Number of Banks (April 11, 1983)	Percentage of Shares in Total Assets (Dec. 31, 1983)
Germany	30
Belgium/Luxembourg	13
Scandinavia	14
France	8
Switzerland	8
USA	3
Italy	2
Japan	1
Other Countries	12
Joint Ventures	9
Total	115
	100

SEEN FROM the air, the neat patchwork of yellow and green fields and the jagged fissures of deep and shady ravines that make up most of the landscape of Luxembourg help to illustrate the current checkered pattern of the Grand Duchy's economy.

The worldwide recession, several structural problems in ailing sectors like the steel industry, growing unemployment and widening deficits all have left their mark on the smallest of the countries in the European Community.

Yet its small size and population—365,000—has helped to keep the worst ravages of the economic downturn at the Grand Duchy's doorstep. Its politicians, economists, bankers, traders and farmers have managed to cope with the new pressures and have slowly begun to work their way out of the presently difficult situation.

"We have our problems but we are learning to cope with them," was how Finance Minister Jacques Santer summed up the situation. While wrestling with a decline in industrial production, negative economic growth and ballooning trade deficits, the Luxembourg government has come to grips with unemployment, inflation and budget shortfalls.

The banking sector, which according to Mr. Santer employs 8 percent of the 141,000 labor force, occupies a weighty position in the government's strategic economic planning.

According to government estimates for 1982, the banking sector is expected to contribute about 30 percent of direct fiscal income and to account for 15 percent of governmental revenues. The sector, while putting the boom years of burgeoning profits firmly behind it, is under pressure from current restraints. The constraints in question stem from the unprecedented slump in the steel market in the fourth quarter of 1982 and the grim outlook, the progressive deterioration of ARBED's finances, the urgent need to restructure the company's balance sheet and the negative aspects of the Commission's initial response to the restructuring program.

ARBED is currently still in negotiation with the Luxembourg government on industrial planning, financial restructuring and social implications. The major restructuring plan calls for investments of 15 billion Luxembourg francs over the next 5 years and compares with total capital investments of 30 billion francs between 1974 and end-1982. The plan is subject to the prior approval of the Brussels-based European Commission, which is asking ARBED to reduce its steel furnace capacity still further from the 15

percent reduction already undertaken by ARBED between 1976 and 1980.

Since the beginning of this year, the future direction to be taken by Luxembourg's steel policies has been the subject of an in-depth review under pressure from current restraints. The constraints in question stem from the unprecedented slump in the steel market in the fourth quarter of 1982 and the grim outlook, the progressive deterioration of ARBED's finances, the urgent need to restructure the company's balance sheet and the negative aspects of the Commission's initial response to the restructuring program.

In the face of these constraints, the results negotiated last year within the framework of the so-called tripartite iron and steel conference, made up of representatives from ARBED, the Luxembourg government and trade unions, proved inadequate and the talks had to be resumed to modify the agreement worked out in 1982.

In the meantime, pressure from the Commission had led the Luxembourg government to commission an independent expert, French industrialist Jean Gandois, to prepare a report on the overall situation of the Luxembourg steel industry and of ARBED-Luxembourg's steelmaking operations in first-half 1982, the giant's strengths and weaknesses, and possible industrial, social and financial strategies. The report was to be used as the basis for establishing the outlines of a new steel policy, adapted to take account of changed circumstances.

From the report's findings, which are still being studied in depth by the tripartite parties, it appears certain that the original restructuring plan

BANKING AND FINANCE IN LUXEMBOURG

Domestic Banking: A Key Role in Expansion

By Craig Anderson

IT WAS A farsighted man who, in 1856, when founding Luxembourg's first bank, called it Banque Internationale. The bank was, in fact, founded by a group of German bankers whose idea was to create an international financial center on their tiny neighbor's territory. But not even these pioneers could have imagined what would grow from their initial venture.

From such humble beginnings, the mold was cast that has shaped the development of Luxembourg into one of the world's most important banking centers — second only to London in the exclusive international financial league. As in 1856, when the main shareholders

of Banque Internationale, known as BIL, came from across the Moselle, so today all Luxembourg's own banks, apart from the state savings bank, have had to look for shareholders outside the confines of the Grand Duchy's borders.

The emergence of Luxembourg as a major financial capital has not happened overnight. The cautious, conservative approach over the last century and a quarter reflects the character of the Luxembourg people. And despite the influx of foreign banks since the banking explosion began in earnest 25 years ago, the country's domestic banks have played a key role at every step of the way. As far as national banking transactions are concerned, both in the field of retail banking and commercial operations with Luxembourg-based firms, the domestic banks hold sway.

"I would say around two-thirds of the domestic market is in the hands of a small number of domestic banks — the state-owned Caisse d'Epargne, Banque Generale de Luxembourg, and Banque Internationale," said Marcel Schleider, president of the Luxembourg Association des Banques et Banquiers and a director of BIL. "The other third is held by the smaller Luxembourg banks, the agricultural cooperative banks known as *caisses rurales*, and also the French banks, which were the first foreign banks ever to set up here in Luxembourg.

In the early 1960s, the country was home to fewer than two dozen different banks; at the last count, 115 banks were established in Luxembourg, almost all the newcomers being subsidiaries of large foreign banks. Although mostly concerned with the Eurobond market and the syndication of large loans, these banks are also making inroads into the domestic market. However, the Luxembourg banks refuse to be intimidated by such moves.

"Increasingly, these international banks are doing customer business here but that is not particularly worrying for us," Mr. Schleider said. "This is a very small place and home customers are not so important for us now. There are limits to the encroachment of other banks onto this market."

While the ability of foreign banks to muscle in on the domestic retail banking scene is constrained by the size factor, the same cannot

be said for the potential of the Luxembourg banks to expand into the domain of their foreign counterparts. The foreign banks are making much greater efforts to entice consumer business from abroad by offering better retail facilities for foreign customers who wish to hold Luxembourg bank accounts. "The aim is to create a kind of Switzerland within the European Community," a leading foreign banker said.

The domestic banks are confident that some of these private customers will deposit their cash with Luxembourg banks rather than foreign ones. The potential for extra business here could far outweigh any losses caused by the foreign banks managing to coax some of the Grand Duchy's 355,000 inhabitants to switch their savings in the opposite direction. Everyone realizes, however, that the major expansion will lie with the burgeoning Euromarkets.

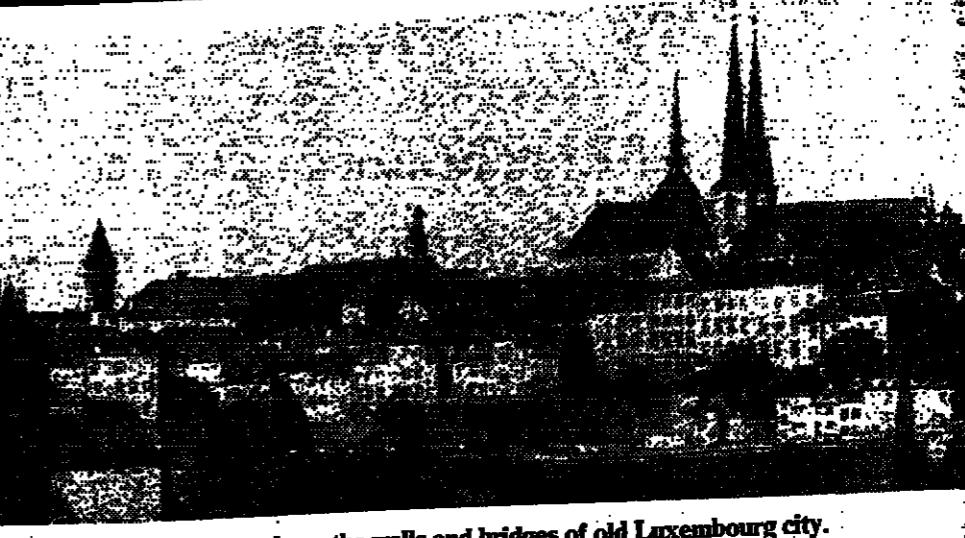
Although commercial banks throughout the world reacted cautiously last year, the deepening indebtedness of many developing countries acting as a brake on large syndicated loans. Banque Generale in its annual report describes 1982 as "a great vintage year in the short history of the Luxembourg capital market." The Eurobond market took off like a rocket, with Luxembourg issues jumping 79 percent from \$24.34 billion in 1981 to \$43.65 billion in 1982, out of a global total of \$180 billion.

It is difficult to separate out the share of these operations accounted for by the domestic banks but Mr. Schleider reckons the main commercial banks devoted between 30 and 40 percent of their entire operations to international business last year, a proportion he expects to increase considerably. Even the state savings bank, whose activities are currently split 9 to 1 in favor of domestic operations, is likely to seek to enlarge its international profile in the future.

"Over the next five years I think international business will probably grow to a level of 50 percent — and maybe more — of total business for the Luxembourg banks, with the percentage much higher for the largest ones," Mr. Schleider said. It would be a mistake, however, to believe that the Luxembourg banks have been riding along on the crest of a wave created by banks from abroad.

The country's three leading com-

(Continued on Page 10S)



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A Shift to Retail Banking

(Continued From Preceding Page)

been concentrated in Western Europe, compared to an average of 50 percent for European banks overall. However, the concentration of loans to financially troubled Eastern Europe and Latin America is higher in Luxembourg than the European average. Loans to Eastern Europe account for 5.8 percent of the foreign loan portfolio of Luxembourg banks and loans to Latin America account for 9.4 percent of the total, compared to 4 and 7.6 percent, respectively, for European banks overall.

The ability of banks here to fund themselves in the interbank market did not suffer last year following the collapse of Banco Ambrosiano in Milan and its Luxembourg holding company, Banco Ambrosiano Holdings. At the time, it was rumored that the reputation of Luxembourg and all banks doing business here would suffer as a result.

But Banking Commission statistics show an insignificant \$600-million decline in Eurocurrency deposits with Luxembourg banks in the third quarter, compared to the first quarter. The most significant changes were an increase of \$3.7 billion in dollar deposits and declines of \$2.6 billion in DM deposits and \$2 billion in Swiss franc deposits. As a result, Luxembourg's share of the Eurocurrency deposit market dipped to 8.8 from 9 percent.

The relatively heavier concentration of loans to Eastern Europe and Latin America also is shrugging off as a result of the impressive profits performance of the banks. Earnings before provisions for bad loans rose 50 percent to \$6 billion francs last year after rising 68 percent a year earlier.

Reported 1982 profits after provisions were a mere third of the to-

tal, or 18.4 billion francs, a rise of 21 percent from 1981 when 60 percent of profits were set aside for provisions.

Luxembourg analysts attribute the sharp rise in profits to a number of factors: a significant increase in the margins charged on new syndicated loans; the decline in short-term interest rates, creating a favorable impact on the financing of fixed-income assets; and a change in the structure of banks financing.

In 1979, Banking Commissioner Pierre Jaans said in an interview, Luxembourg banks matched one unit of less expensive non-bank funding with almost eight units of the more expensive interbank funding. But by the end of last year, this ratio had been cut to 1-to-5 — meaning a marked improvement in the profitability of making loans to the interbank rate.

The banks will also be receiving a powerful boost in profitability from their provisions for bad loans as the result of lower corporate taxes and extra income. The set aside over the last two years means the banks have slightly more than \$1 billion to finance loans on which they pay no interest at all. They earn as net profit not only the margin on the loan but also the full London interbank base rate.

The tax treatment of these set aside will be assessed when the authorities analyze the accounts in 1985. In the meantime, the banks are prepared to pay the price needed to attract foreign talent, adding that this includes software experts to establish the computer systems analysts will need.

"Luxembourg has remained very traditional," he said. "There are no money-market funds or specialized venture capital funds based here. We could do a lot, but it will require a change in mentality."

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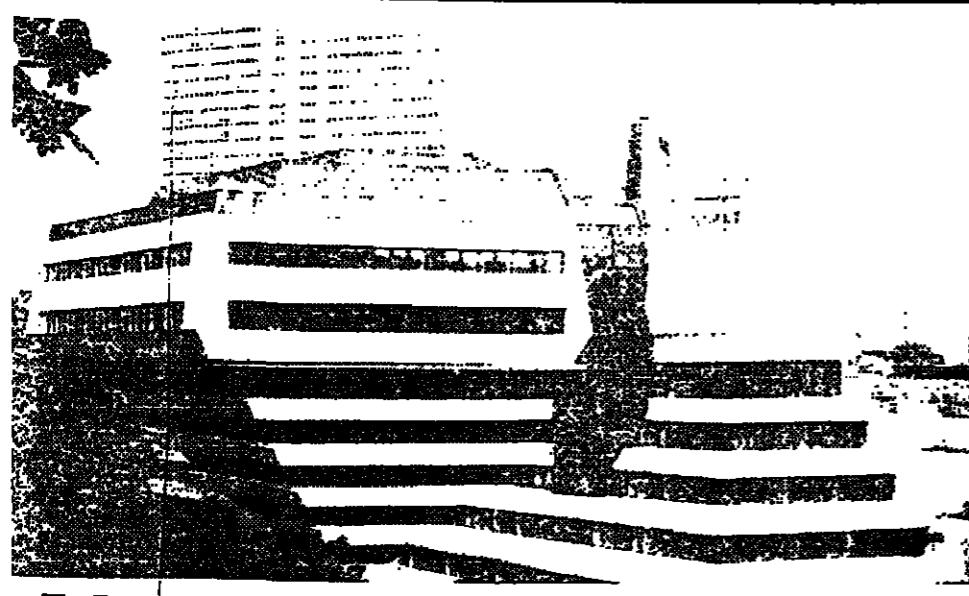
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BANKING AND FINANCE IN LUXEMBOURG



The European Parliament building. Kirchberg European center is in the background.

Newest Bank Sets Strategy Of World Trade Financing

LUXEMBOURG'S newest bank, International Bankers Inc., opened last month. IBI with largely Saudi funding and French management will be moving by winter to new quarters along a much more conventional banking street — and it will be anything but a conventional bank.

The bank, controlled through a Curacao holding company capitalized at \$160 million (of which \$75 million has already been subscribed) will engage in some rather specialized segments of banking, among them international trade financing, above all between the Middle East and Europe — in oil, gas, sugar, rains and cement. "This will not be commodity trading or buying and selling hot belles," said Alan Field, one of the two Luxembourg-based general managers. Another line of business will be serving a certain number of clients for placements on the Euro-market and, eventually, elsewhere.

In the business of portfolio management, IBI has a distinct advantage — the high-net-worth Middle Easterners who put up its own capital. Among them are Adnan Khassoggi's Triad and the Saudi Cement group, headed by Sheikh Abdullah Broom, and most importantly M. Yousouf Akram Ojeib's Techniques de l'Avant Garde (TAG). These men will provide a Gulf connection to IBI. Another area of banking operation is less startling: commercial bank lending to European corporate clients.

Mr. Field, 40, formerly headed the Bahrain office of Crédit Commercial de France. Another ex-CCF official at the bank is Ayward Durant de Saint-André, the other general manager. They will be joined next month by the new chairman of the Luxembourg bank, Jean de Roquefeuil, as soon as his resignation as general manager of CCF takes effect.

Other executives from CCF at the new bank include its counsel, Paul Monnery, and the chairman of the Luxembourg holding, Jean-Maxime Lévéque. Mr. Lévéque in the French election campaign tried to rally the bank's shareholders and clients to oppose the Socialists and resigned when his bank was nationalized. He denied that he staged a raid on CCF to staff his new bank, but he admitted that an element of politics came into play. In France today, he said, "people can no longer engage in traditional banking." As a result, "people are reacting," he added.

Mr. Field said that the bank has been active in engaging staff during its first month of operation. "We are making a veritable Tower of Babel here: not just French, but British, Belgian, German, Luxembourg — and we're expecting a Lebanese," he said. "We are trying to have everybody sharing a team spirit, which is easier to say than to achieve." By autumn, the staff, which has to perform head-office functions as well as engage in its specialized banking businesses, will have reached 30 persons. By then,

IBI will be busy in getting its first subsidiary set up in Switzerland, for portfolio management. New York will be next.

The Luxembourg banking world is looking with considerable favor at the newcomers. Jacques Poos, at Paribas, said: "It is a good sign that international specialists like Lévéque and Roquefeuil choose Luxembourg." Others are impressed that IBI (as opposed to the holding company) was capitalized at \$50 million, when only \$7 million was required. "IBI has a lot of capital it can put into Eurobonds," said Edouard Champion at Bank of Boston.

But the most cogent comment came from a bank regulator. "They have to succeed," he said. "If their Luxembourg bank is not successful, they can't pull out. So their motivation must be strong." Another banker said that "at least they start out knowing about the country risk problem."

The idea of putting together Arab capital and banking expertise is an old one. In Luxembourg, Bank of Credit and Commerce International is an example.

The difference is that, although many of them would like to play down the political implications of their joining what Luxembourgers call the "Lévéque bank," IBI's executives are émigrés. Ideology may not have been the sole motive for coming on board, but it must have counted for something in the decision of the CCF contingent.

— VIVIAN LEWIS

EC Membership: A Source of National Pride

MILLIONS of dollars worth of postage stamps, telephone calls, hotel reservations and taxi fares are some of the more tangible benefits brought to Luxembourg as a direct consequence of the country's membership of the European Community.

Although now largely in the shadow of Brussels as a center for the EC's lumbering bureaucracy, the Grand Duchy is proud of its tradition as the very first host of the fledgling EC, which began to flourish in 1952 with the establishment of the European Coal and Steel Community. More than 30 years later, Luxembourg is clinging tenaciously to the other EC institutions — such as the European Investment Bank, the European Court of Justice and the administrative headquarters of the European Parliament, which have subsequently been established here.

People admit that despite the bonanza for the post office, the phone company, and the hotel proprietors, the influx of several thousand mostly highly paid foreigners has brought its disadvantages in terms of pushing up house prices, rents and the overall cost of living.

But this was in the early days, during the 1950s when the main wave of newcomers arrived. Today, the effect is minimal. One gets the impression, in any case that in Luxembourg, the generally high standard of living for a large proportion of the population has not made it too difficult for the man in the street to cope with any problems of this score.

"In a small-scale economy such as ours, it makes a great difference to have so many European civil servants: these people have to be housed and they have to buy food, clothes and everything else," said Colette Flesch, Luxembourg's foreign minister. "The presence of the European institutions in Luxembourg has brought a lot, not only in economic and political terms but also, I think, in general cultural terms. I feel our community has become richer because of the presence of people from throughout Europe."

However, the country's leaders view the presence of the various EC institutions far more in terms of their fundamental political significance than in terms of the day-to-day financial benefits provided by a clutch of futuristic EC buildings nestling on the windswept Kirchberg Plateau and their multinational contingent of administrators, lawyers and linguists.

Politically, Luxembourg is proud of its membership of the 10-national European Community and believes

that its international stature has been increased as a result of it. But is it not the case that tiny countries that join larger groupings tend to lose their own national status and identity? Not so with Luxembourg, Mrs. Flesch said.

If, in this day and age the

success or not, was willing to take the risk to invest and to commit it's self."

It is obvious that EC activities have brought extra prosperity to the Grand Duchy. It has been estimated that postage costs can go as high as \$50,000 for each letter sent out, depending on the number and location of the recipients. Also, the development of international banking in Luxembourg owes some of its acquired respectability to the fact that the EC's financial institutions are also based there in order to use the facilities for easy access to the financial markets. But all this is seen merely as a welcome bonus rather than the underlying reason for hanging on to all those clacking typewriters and busy interpreters' booths.

These are the spinoffs. The benefits, as far as the government is concerned, are counted in terms of the country's heightened political status. What more could a country of 999 square miles (2,597.4 square kilometers) ask?

— CRAIG ANDERSON

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Net dividend per share	Lfrs. 215	Lfrs. 225	Lfrs. 225
Cash flow *	872	1,152	2,392
Total Assets	132,561	176,240	199,495
Loans and advances	35,359	41,792	56,346
Due from banks	65,584	104,300	108,116
Due to banks	30,602	40,768	34,668
Customers' deposits	86,147	118,791	143,451
Own resources incl. borrowed capital	3,454	3,604	4,831

* Net profit plus allocation for depreciation and provisions, after deduction of the taxes on profit of the previous financial year. The annual balance sheet and profit and loss account are published in the "Statutaire Rapport Statut de Société et Asservissement du Grand-Duché de Luxembourg". For your copy of the "Annual Account" in English, French or German, please contact our Head Office in Luxembourg.



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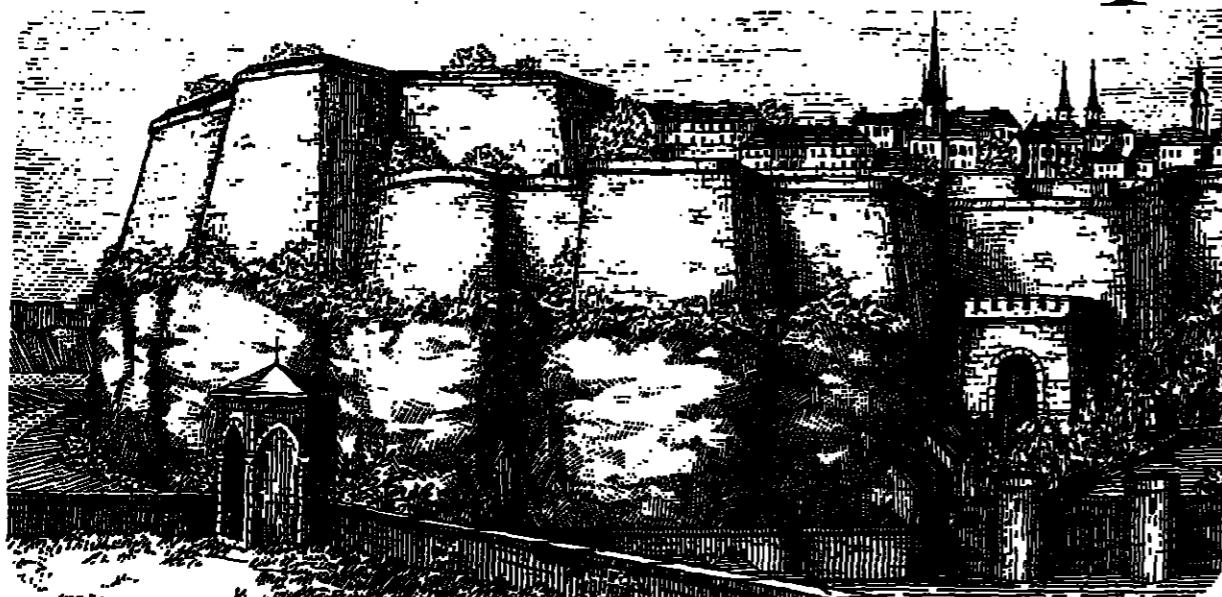
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BANKING AND FINANCE IN LUXEMBOURG

BCCI: Success Story for a Local Bank

APART FROM two government banks, Luxembourg has five native banks, all controlled by Luxembourg interests directly or through a Luxembourg holding company.

Each of the five has a foreign affiliation: Banque Internationale, with the Brussels-Lambert banking group; Banque Générale, with Société Générale de Banque; Kreidelsbank Luxembourg, with the third-largest Belgian bank with which it shares the name, and Trade Development Bank, which is losing its special indigenous quality as a result of the takeover by American Express International (of Geneva, and ultimately, New York) and which will be replaced in this respect by a newcomer, International Bankers Inc. The fifth, Bank of Credit and Commerce International, despite its Arab capital, is considered a Luxembourg bank because it is controlled by a Luxembourg holding.

For years the rapidly growing

BCCI has been looked at askance in London banking circles. By offering 24-hour banking at tourist centers in central London, that quintessentially 9-to-5 banking center, BCCI attracted envy as well as suspicion, particularly because it did so well. Today, the 10-year-old bank has an asset base of \$5.6 billion and is growing at a compounded annual rate of 30 percent. It has 28 branches in central London alone, as well as 18 other branches throughout Britain and the Isle of Man. By the end of the year, according to S. Akhlaque Husain, the general manager, there will be 35 branches in London, the local client base.

Profits for 1982 soared to \$135.4 million, up from \$64.8 million in 1981. A number of branches were opened by the group, including a representative office in Peking and banks in Botswana and the Maldives, bringing a BCCI presence to

57 countries. This year, Mr. Husain said, the bank plans to expand its operations in Canada, where it already has four branches.

The BCCI phenomenon may be slowing down, but it is far from ended. "The next time you come to see me, you will find a longer list of countries," Mr. Husain said.

Shareholders have been generous. Instead of having to pay dividends, BCCI has issued new shares and put the money back into the bank. Services and fees have helped the bank create a market for itself, but profits are not generated by the relatively high liquid position that handling foreign exchange and travelers checks requires. The bank, from the start, has also gone in for short-term trade financing.

But in a way, the explanation may be the business BCCI did not get into. "We stick to the business we know," Mr. Husain said.

"That is the main reason we have not burned our fingers in East Africa or Eastern Europe." The bank is absent from the East Bloc entirely, and, apart from representative offices in Colombia and Venezuela, virtually absent from Latin America and the Caribbean side-haven like Panama (and Grand Cayman). It has entered the Euromarket no. "We don't want our name to be on milestones," Mr. Husain said, referring to the advertisements bandied about when they have syndicated a Eurobond or credit.

An outsider praised the BCCI dynamism under Agha Husain Abedi, who founded the bank with a perfect sense of timing 10 months before the OPEC price rise of 1973. "But they can't keep it up, they will move toward being a bank like any other before long," he said.

—VILLIAN LEWIS

EIB Forecasts Continued Expansion

By Michael Metcalfe

AFTER five years of exceptional rapid growth, the European Investment Bank ranks second only to the World Bank among supranational lending agencies. And the EIB, overlooking the banking heart of Luxembourg City, has great hopes for a further four or five years of relatively sharp expansion.

Created in 1958 by the Treaty of Rome, which established the European Community, the EIB is an independent public institution within the community that prides itself on being, above all, a shrewd and practical bank.

"We are not a fairy godmother institution; we have to be hard-nosed, working on a sound financial basis, operating on borrowed resources and enjoying the full confidence of the financial markets," said one EIB official.

The bank's role as a financing instrument inside and outside of the Common Market has much roomed over the past five years, and its lending and capital resources have done the same. Its total subscribed capital was doubled in 1981 to 14.4 billion European Currency Units (about \$13 billion), pushing its lending capacity from about 18 billion ECUs to around 36 billion.

The subscribed capital — which comes from EC member-states, with the bulk contributed by West Germany, France, Britain and Italy — determines the total available for loans and guarantees outstanding. These may not exceed the ceiling of 250 percent of capital, or the

36 billion ECUs mentioned above.

At the end of 1982, the total outstanding was 20.7 billion ECUs, well within the limits and a healthy indication of the bank's resources.

The major portion of its financial clout, however, derives from borrowings — principally public or private bond issues raised on capital markets inside or outside the EC. From 1981 to 1982 its borrowings totaled 18.6 billion ECUs. The bank enjoys a high credit standing reflected by its Triple-A credit rating in the United States. Its bonds are quoted on the world's major stock exchanges.

Since its creation, the bank has provided financing of about 25.8 billion ECUs, with the bulk (about 22.5 billion ECUs) going to Common Market countries. More than 60 percent of the latter sum has been provided since 1979, illustrating the bank's rapid growth in recent years. In 1982, total financing reached 4.7 billion ECUs, with more than 4.2 billion of this going to Common Market nations.

The bank sets no fixed lending quotas inside or outside the European Community. A large part of financing is concentrated in the economically hardest hit countries and districts of the Common Market. Over 80 percent of 1982 loans within the community went to projects in Italy, Britain, France, Greece and Ireland.

Under the Treaty of Rome, the bank gives priority to lending for regional development. This rose substantially last year, with the largest part of funds going to regions suffering high unemployment.

The bank also places high priority on financing efforts to reduce EC dependence on imported oil.

Energy projects financed last year eventually should help replace the equivalent of 17.3 million metric

tons of imported oil a year, or the equivalent of about one-fourth of West Germany's oil imports in 1982; they should also provide yearly savings of 4.8 billion metric tons, mainly through more efficient use of energy in industry.

The bank is quick to emphasize that its function is not simply to process indiscriminately an endless shopping list of projects sent on by EC states. "Each application is judged purely on its economic and social viability and merits," one bank official said. The EIB employs lawyers, financial analysts and engineers to check each applicant's financial health and management.

The EIB was set up as a nonprofit organization, but it has a duty to maintain a solid capital-lending ratio and not to notch up losses," an official said.

The bank finances projects ranging from the development of anticancer drugs to the construction or upgrading of facilities for water, gas, electricity, sewerage, irrigation, transport and telecommunications.

The EIB emphasizes small- and medium-sized investment through so-called global loans. These loans are made to regional or national financing bodies, which use the funds to support investments on lines agreed upon with the EIB. In 1982, the bank advanced global loans totaling about 520 million ECUs, mostly to support 1,400 small- and medium-scale ventures chiefly in industry.

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The safeguarding and creation of jobs are also high on the EIB list of priorities. The bank provided financing last year that is estimated to have contributed toward new fixed investments of more than 12 billion ECUs.

Ventures backed by the EIB last year should lead to the creation or conservation of more than 58,000 jobs. Projects financed by the bank since 1977, some of which take years to implement, are estimated to have secured employment, directly or indirectly, for more than 410,000 workers in 1982.

Although the bank is nonprofit organization, its interest rates are dictated by the normal movements of the international capital markets. However, some EIB loans receive a 3-percent interest subsidy financed from the EC budget under a plan to assist less prosperous countries in the European Monetary System. A large proportion of EIB lending in Italy and in the bulk of loans in Ireland last year qualified for the 3-percent subsidy.

The bank also makes loans outside the European Community, in particular to Spain and Portugal in conjunction with their plan to join the community. Loans will go to 38 countries in all, including Yugoslavia, Egypt, Cyprus and some of the African, Caribbean and Pacific states involved in the Lomé Convention.

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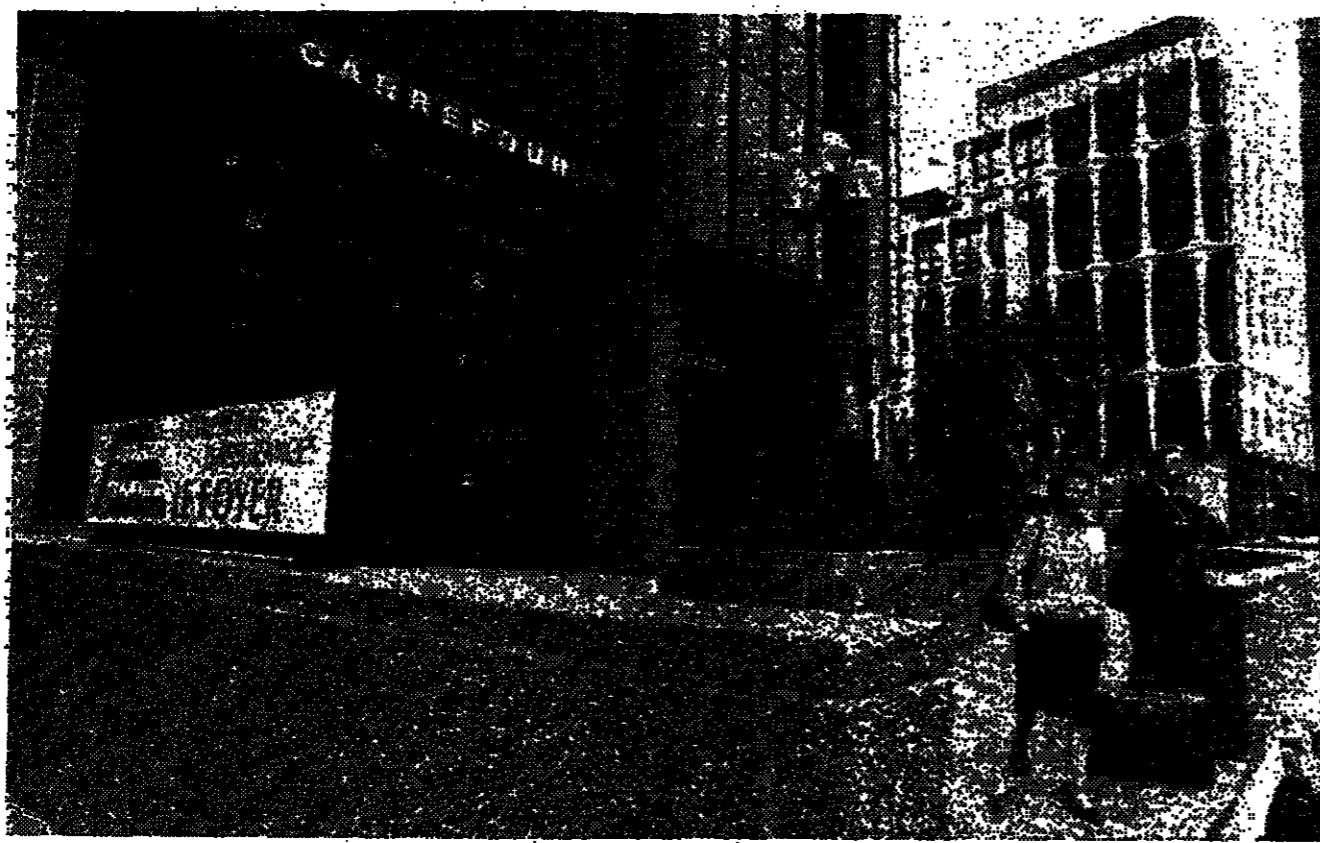
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John Coppiens-Hans

Foreign Investment: Labor Costs, Location, Productivity Are Incentives

WHY INVEST in Luxembourg? It seemed a simple question to begin with. As a member of the 10-nation European Community, one might imagine that given or take a slight tax advantage here or a government aid there, Luxembourg might be broadly similar to all the rest of the EC countries.

In terms of run-of-the-mill manufacturing investment, it could be argued that this was the case. At around 48 percent, corporate taxation levels for normal *sociétés anonymes* cannot be said to be very far out of line with those in Belgium, France or West Germany.

Since the mid-1970s, the Luxembourg government has been trying to stimulate flagging foreign investment — as all European governments have been trying to do — and although companies can take advantage of a generous package of subsidies for the purchase of land and machinery, investment grants and tax credits and tax holidays, as a member of the EC, Luxembourg has to remember that all state aid comes under the eagle eye of the

European Commission in Brussels.

Any attempt by the Grand Duchy, or any other EC government for that matter, to steal a march on their Common Market partners by going too far out of their way to encourage new manufacturing industry is likely to be stopped immediately by the commission's competition officials. Nevertheless, a sizable number of foreign firms have decided to set up manufacturing operations. The U.S. tire firm Goodyear was about the first to come back in 1955 and other foreign investors include EL du Pont de Nemours, Electrolux-Krft and General Motors.

Location has clearly been a major factor in persuading companies to settle here. True to its historic position, straddling the Roman and Germanic civilizations, Luxembourg today sits right in the center of the European Community, the world's largest single market with a consumer population of more than 270 million.

According to Eurostat, the EC's statistical service, hourly labor

costs are around 12 percent higher than in France but markedly lower than in Germany, Belgium and the Netherlands. Productivity per worker, according to Eurostat, is at least 10 percent higher than all four countries. The inflation rate has consistently stayed well below the EC average, higher than Germany and the Netherlands but lower than France, Belgium and Britain.

Consumer prices are below average, with the lowest value added

tax rates in the Common Market.

There is also the added attraction of Luxembourg's importance as a financial center. Interest rates tend to be 2 or 3 percent lower than in neighboring countries. At present, for example, average interest rates in Belgium are around 15 percent, whereas a loan in Luxembourg will cost you 12 percent.

And even that is considered expensive for Luxembourg.

Finally, the country can boast excellent industrial relations — there has not been a major strike since 1921 — and a highly stable political climate. The "small-is-beautiful" argument certainly applies in this respect. As one Luxembourg-born business consultant said: "You are obviously much less likely to have political or industrial problems if most of the trade union bosses and politicians went to the same school together."

But Luxembourg's economic miracle is only partly explained by its relative success in courting foreign multinationals to set up operations within its borders. In other respects, the country is plainly not just another EC member state. The question of investing in Luxembourg begs two separate replies. One of the major factors that has led in less than 25 years to the country's development as one of the largest financial centers in the world has been deliberate government legislation to encourage the emergence of that strangest of corporate creations, the Luxembourg holding company.

The legislation was passed in 1929, the same year as the Luxembourg stock exchange was created. Today, out of a total of just under 7,000 *sociétés anonymes*, almost 5,500 are registered as holding companies.

A spokesman at the Luxembourg office of Ernst & Whinney, the international accounting firm, said: "The law here restricts the activities of holding companies to merely taking shareholdings in other firms either within Luxembourg or elsewhere. They are not allowed to become involved in any commercial activities. In return, they pay no taxes at all on revenue or dividends apart from normally 0.2 percent of shareholders' equity."

"Most holding companies are parent companies, the others being subsidiaries in larger groups. But the function is often the same for both types. They may act as a kind of private bank for the other firms in their group, borrowing money on the financial markets here to lend to subsidiaries or sister companies. In this way, groups can maximize profits at the Luxembourg end of the business, where, of course, they are virtually exempt from taxation."

Whether such activities are wholly ethical is open to question, and most experts connected with the financial scene in Luxembourg say that the system does offer scope for abuse and tax evasion in other countries. Some holding companies are used merely to siphon off profits from the rest of the group into tax-free Luxembourg. However, the majority of firms probably use the facility not to build up massive tax-free profits to be used for nefarious purposes or for private gain but in order to take advantage of the opportunity to recycle money within the corporate group as cheaply and as easily as possible to allow greater freedom for subsidiaries to invest elsewhere.

A leading tax adviser said: "One of the chief advantages of Luxembourg is that money goes in and out of the country without restriction. That is very important if you are financing a series of international operations." In recent years, the Luxembourg

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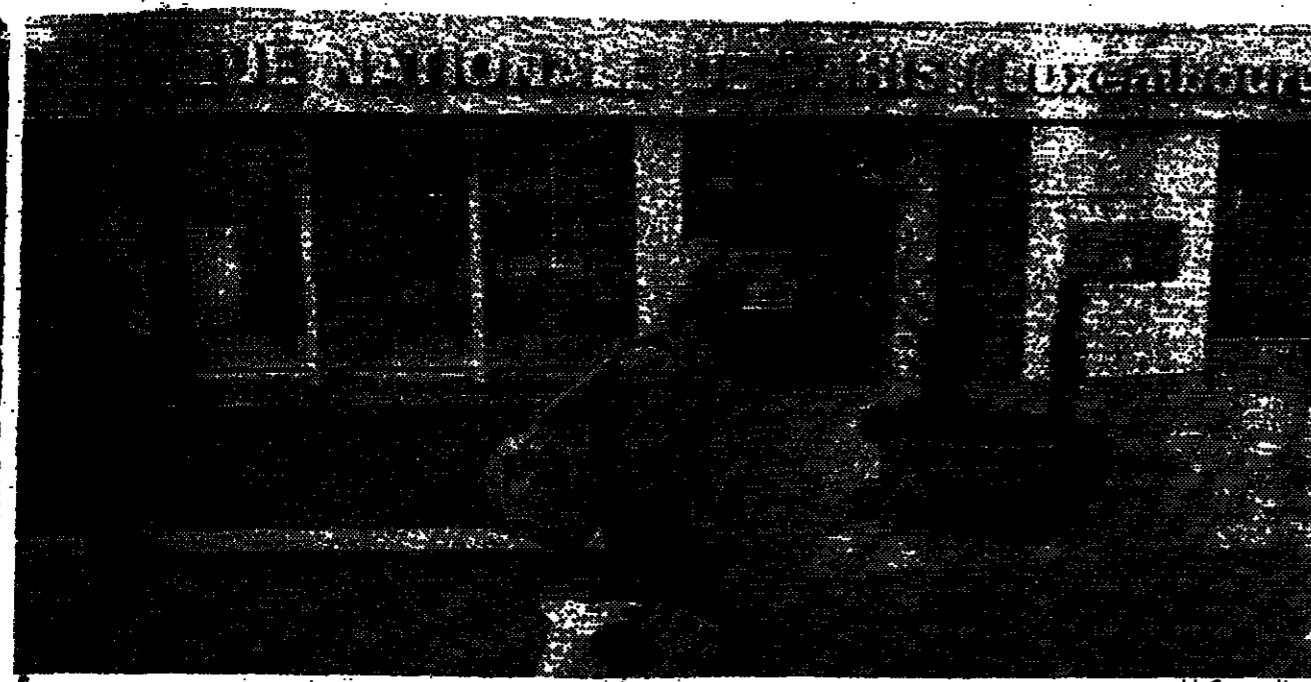
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— CRAIG ANDERSON

BANKING AND FINANCE IN LUXEMBOURG



The Banque Nationale de Paris on the Blvd. Royal.

John Cappa

Offshore Banking Profits Are Rising

LUXEMBOURG may have very steep taxes, but it is nonetheless proving to be a nice offshore place for international banks to be, to judge by operating profits — from aggregate earnings of 22 billion francs in 1980, to 37 billion in 1981 and to 56 billion last year.

Provisions and taxes reduced those gains to some extent. But in the unregulated environment of Luxembourg, provisions are left to banks to decide and even taxes are something they choose to pay. Luxembourg is like an island haven in this respect, with dependence on international banks.

With 8,621 employees (5,833 of whom are citizens), banks account for 5.4 percent of all jobs in the country. They produce between a fifth and a quarter of gross national product. Banks paid 10 billion francs in taxes in 1981, or 38 percent of all direct taxes, 60 percent of all corporate taxes — and 19 percent of the total budget of the country.

If taxes are easing up, it may be to keep the banks where they are. Luxembourg can make its weight felt in the EC and internationally because of its banking presence. The payoff for a Eurocenter is not only jobs and taxes.

The 115 banks of Luxembourg (33 of which are from Belgium or Luxembourg) had a collective balance sheet at the end of January 1983 of a little more than 6 trillion francs, 5.3 trillion francs of which was in foreign currency. In 1970, there were only 37 banks with a collective balance sheet of 236 billion francs. But while the growth of volume and numbers of banks was rapid in the 1970s, it has slowed in absolute terms and Euromarket share.

London has benefited from Luxembourg's failure to keep pace. According to the Bank for International Settlements, in 1982 the Luxembourg share of assets and liabilities on the European Euromarket was between 10 and 10.3 percent. It retained its third-place position, after London and Paris, but its share of the total market was lower than it had been since 1975. Britain, with just under 52 percent of all European Euromarket, was

picking up the slack from Luxembourg and also from the decline of Paris as a Eurocenter.

Even apart from the shift to London, Luxembourg is threatened by the shift of banking business to the newly legalized American offshore centers, International Banking Facilities, of which 269 banks have taken advantage.

Many Luxembourg bankers and their regulators were cheered by the remarks of Jean de Roquefeuil, formerly general manager of Crédit Commercial de France, who in June will become chairman of the newly formed International Banks Inc., founded by Arab interests and incorporated in Curaçao.

Mr. Roquefeuil explained why

IBI would not set up in London: "Ratios make it hard to earn money there, in contrast to Luxembourg," he said. (Luxembourg requires that bank capital be equal only to at least 3 percent of lending volume.) Luxembourg fans also cheer other new arrivals like Merrill Lynch and American Express, who are using Luxembourg for investment banking operations.

American Express came in via the back door and did not add to the number of institutions in Luxembourg, since it bought the bank holding company of Edmond Development Bank group of Edmond Safra.

Luxembourg still remains the center of choice for some international bankers, like the Bank of China, the Bank Handlowy, the Scandinavians, the Israelis and the Brazilians. Testing conditions and a growing number of investment funds have found that the city's combination of holding-company law, and financial possibilities make it a natural. Among the 92 funds, are several American, stock and money market funds and the only mutual fund to invest in art, Arizona.

But departures can be worrying.

In the last 12 months several banks have announced that they were closing down their Luxembourg operations. These included the small German state-owned Landesbank Stuttgart, American Fletcher International Resources (Bank of

Montreal), European-American Bank (a consortium that is closing in June) and — from a minority holding — another Canadian and the country's only Austrian bank, Österreichische Laenderbank.

Home office strategic reasons explain most of the departures, but in the case of the Stuttgart bank, losses on lending to the Ambrosius group was a reinforcing reason.

To help build up Luxembourg's appeal as a financial center, the authorities are fostering diversification. As in West Germany — but unlike the practice in Belgium, Britain or the United States — Luxembourg banks are "universal" banks, which can engage in credit business but also underwriting, investment advice and management, floating bonds and shares, portfolio management. The American banking contingent of 10 banks includes six that have created Luxembourg subsidiaries rather than branches precisely in order to be able to diversify. And the local government is helping, above all by easing taxation.

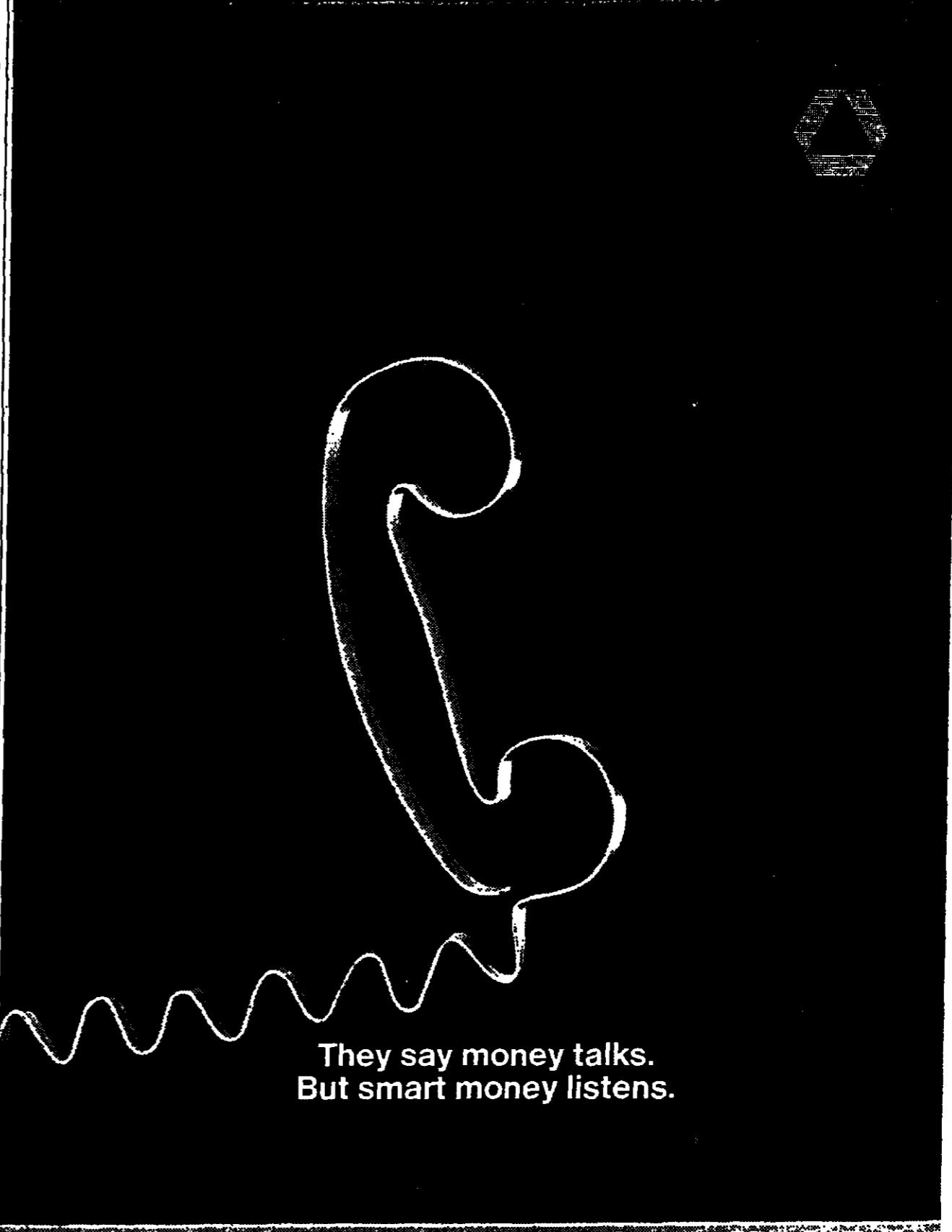
The bite on banks have been reduced by suspending — and ultimately, forgiving — the taxes banks would otherwise owe on gains due to changing exchange rates in foreign currency denominated capital and reserves, while

— VIVIAN LEWIS



Ernest Mühlen

John Cappa



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BANKING AND FINANCE IN LUXEMBOURG



Outside the capital: Left, the Moselle River, the boundary with West Germany; right, the picturesque town of Esch.

Loan Currencies: Deutsche Mark Assets, Liabilities Far Outweigh Dollar's

Special to the IHT

TWO CURRENCIES dominate Luxembourg's interbank market — the dollar and the Deutsche mark. The latest figures from the Banking Commission show the two currencies accounting for exactly equal amounts of the center's banking assets, 41.5 percent each.

But it is a different tale on the other side of the balance sheet. Here dollar liabilities far outweigh Deutsche marks. At the end of the third quarter of 1982, the dollar accounted for more than 53 percent of the center's total liabilities, while the mark liabilities amounted to a little more than 30 percent of the total.

But when the figures for Luxembourg are compared to the rest of the Euromarket, the Grand Duchy emerges as a notable Euromarket center but a negligible dollar center. Luxembourg's banks have more than 30 percent of the Euromarket's mark assets and nearly a quarter of its mark liabilities. That compares with a figure for dollars of a little more than 5.5 percent

of the Euromarket assets and 6 percent of its liabilities.

West German banks, as befits their role as the largest national grouping in Luxembourg, dominate the interbank market. They account for more than 50 percent of the business done on the interbank market. A lot of the business is arbitrage between dollar and mark.

Luxembourg's interbank market differs little from London's. The average size of trades in Luxembourg is much the same as in London or any other financial center, but the volume is considerably less. Luxembourg has only a quarter the number of banks London has and it has a very small Japanese presence. In London, the Japanese banks account for nearly a third of the trades that take place.

The main suppliers of funds to the interbank market are the Swiss banks. The main takers have traditionally been the Scandinavian banks and this is still the case. They came to Luxembourg to raise funds for loans to support their

domestic customers and this is still their main activity. "We were attracted by the absence of reserve requirements in Luxembourg," a senior Swedish banker said. "Our business is almost entirely Swedish related — either for Swedish borrowers or for Swedish exports. We fund it entirely on the Luxembourg interbank market."

Such is the Swedish presence in Luxembourg that the Grand Duchy has become the leading krona/dollar center in the world. Several banks now specialize in the forward dollar/krona market that has developed over the last three or four years.

Forward markets are a Luxembourg peculiarity. Very little business is done in the spot market. Luxembourg is predominantly a deposit and forward center. Banks tend to do their spot business in the world's biggest foreign exchange centers — London and New York. The forward markets are where banks keep their money — they take a position on a currency and if they

are right they unwind the position at a profit. The downside risk is limited because of the liquidity of the market.

Besides the Swiss banks, who recycle the money deposited with them in Switzerland through the Grand Duchy, are the French and indigenous banks. The French are less important providers than they used to be. Banque de Paris et des Pays Bas in Luxembourg is known to have suffered a drain of deposits after the election of President François Mitterrand and the nationalization of those banks that were not already nationalized. Paribas recovered by buying a large stake in nearby Banque Continentale du Luxembourg, staffing it with native Luxembourgers who redirect clients there. "It seems to have worked," one West German banker said.

The local banks have always been important providers of funds in Luxembourg. The largest of the local banks, Kredietbank Luxembourg-

ges, has more than half its liabilities in the form of customer deposits. Although Luxembourg is part of the Belgian-Luxembourg Economic Union and shares the same currency — but not the same coins — Luxembourg is a different country, as was graphically illustrated last year when the Belgian franc came under pressure and was devalued by 8.5 percent. The authorities were furious and threatened to leave the union. They also stopped non-Luxembourgers holding Luxembourg-franc assets, which led to a growth in demand for assets denominated in European Currency Units.

There is now a small but significant market in European Currency Units in Luxembourg. "It's just a drop in the barrel," one experienced trader said. "There is a small handful of market makers. A few corporate treasurers use the European Currency Unit to hedge, and the European Commission is a big player." The average size of an ECU trade is between 1 million and 3 million.

Luxembourg bankers are worried by the lack of diversity in their sources of funding. "We are too dependent on the Swiss," a senior banker said. Luxembourg bankers are concerned that there is little U.S. involvement in their market. U.S. banks are pulling out of Luxembourg rather quickly.

There are also no U.S. regional banks in Luxembourg. To a very large extent they are the most important suppliers of liquidity to the London interbank markets.

Arab money, too, has virtually passed Luxembourg by.

Although Bank for Credit and Commerce International has its headquarters in Luxembourg, it is not a major player on the interbank market.

More importantly, Luxembourg handled very little of the Organization of Petroleum Exporting Countries' surplus at first hand; the big banks in London, New York and Frankfurt handled that.

Settlement Preserves Belgian Monetary Link

THE DUST is settling in a dispute between Luxembourg and Belgium over the 62-year-old monetary marriage of convenience between the two neighbors, a marriage that at times last year seemed headed for divorce.

Luxembourg's demands for far-reaching amendments in the association have been partially met by Brussels. This has stilled rumblings in the Luxembourg government, though many citizens of the Grand Duchy are still far from pleased.

The anger expressed by Luxembourg last year when the Belgians unilaterally devalued their franc —

forcing an identical 8.5-percent adjustment downward of the Luxembourg currency — has changed to a sense of reserved satisfaction.

The change in sentiment was best felt in March this year, when a realignment of the European Monetary System brought about an upward adjustment by 1.5 percent of the two countries' currencies.

"We have gained our broad objectives and we are on the whole satisfied with the existing arrangement," said Finance Minister Jacques Santier. But he cautioned that Luxembourg was "prepared to meet any eventuality."

The regulations are based on the principle that foreign transactions

are freely allowed but that they must be carried out either on the official market, where fluctuations in the exchange rate are controlled by the Belgian National Bank, or on the open market, where the rate is freely determined on the basis of supply and demand. "It's a system which, while complex because of its dual nature, on the whole works to the general satisfaction of both parties," commented one central bank official.

The advantages of the dual system become clear when the exchange market is unsettled, as was the case before the March 21 realignment, when speculative

pressure on the weak French franc forced Common Market governments to act.

Where the system breaks down, explained a financial analyst, is in the large divergences in the Belgian and Luxembourg economies. The Belgian economy suffers from higher inflation, proportionately wider budget and trade deficits, and much larger-scale unemployment.

This was the case in February last year, when, as one senior Luxembourg official described it, "The Belgians passed the buck of their economic troubles onto us."

The 8.5-percent readjustment at that time caught the Luxembourgers unawares. As Mr. Santier said, "We were informed like all the others, by phone, which is difficult to swallow when you have had a long partnership." The Grand Duchy's government, incensed by the Belgian move, pushed for three major amendments to the BLEU monetary protocol.

The government demanded that it be consulted well in advance of any planned parity change; that the gold and foreign exchange reserves of each country be valued separately; and that exchange rate guarantees be given for Luxembourg assets held in Belgian francs.

On the first point, Mr. Santier said that the Luxembourg government had gained its objective. "In the matter of prior consultations, we are well satisfied; we now have regular consultations," he said.

Negotiations on the second and third points — which are related, since separate identification of currency reserves would help Luxembourg pressure the Belgians into giving compensation in the event of a break in the parity link — are continuing with some difficulty, Mr. Santier said.

A major obstacle is that Luxembourg does not have a central bank of its own, but uses the Banque Nationale de Belgique as its central bank. Because foreign reserves in the bank's vaults are the sole property of the bank and assessing the contributions of each country would be an accounting nightmare, Luxembourg's case is weakened.

The establishment this year of the Institut Monétaire Luxembourgeois, which is designed to have many characteristics of a central bank, may make Luxembourg's task a little easier and provide it with more weight in European Community discussions on its monetary system.

But on the whole, the Belgo-Luxembourg exchange regulations, including the dual exchange-rate market, are flexible enough to allow speculation and monetary disturbances to be dealt with effectively, without interfering with freedom of trade between the two neighbors.

And should this fail, which now seems unlikely, the Grand Duchy could resort to its ultimate weapon — pulling its franc out of the association and breaking the parity link. While not threatening to do this, Mr. Santier noted that a precedent existed, when in the mid-1930s the two currencies severed their parity bond.

No such breakup seems likely now. While pushing for greater freedom of action in the association, Luxembourg is eager to pursue a policy of stability in its monetary dealings. If this can be realized, and its interests taken into account, then Luxembourgers will make do with their sometimes rocky marriage.

—MICHAEL METCALFE

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Kredietbank N.V. Kredietbank (Suisse) S.A. Lehman Brothers, Kuhn Loeb Manufacturers Hanover Morgan Grenfell & Co.
Morgan Guaranty Ltd. Nederlandse Creditbank av The Nikko Securities Co., (Europe) Ltd. Nippon European Bank S.A.
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BANKING AND FINANCE IN LUXEMBOURG

International Clearing System, Interbank Market Support Bonds Business

IN THE world of Euromarkets you have two elements trying to meet: funds looking for a home and a rate of return — preferably free of excessive tax burdens — and "wagabond" investment opportunities.

Both can come together in a dozen places in the world today under conditions more attractive to borrower or lender than in Luxembourg. The fact that certain business has been booked there in the past or is being booked there now "is no guarantee for any single banking center," said Edelebert Stoeck, head of the Deutsche Bank subsidiary in Luxembourg.

Luxembourg, the place where the proverbial bond holder, the Belgian dentist, is closest to home, remains the venue of choice for some operations, notably Eurobond issues. Of all Eurobonds issued last year, Luxembourg banks participated in 16.3 percent by volume, a drop from 21.8 percent the previous year and even higher levels a decade ago. The reason that more bonds are being denominated in dollars — a currency in which Luxembourg is relatively

weaker — than in West German marks, French francs or the handful of European and international composite currencies like ECUs (European Currency Units), SDRs (Special Drawing Rights), EUs (European Units of Account) and EUROs (European Currency Options).

But in the secondary market, Luxembourg remains well positioned, with its Bourse quoting no fewer than 43 percent of all bonds traded, up from 45.4 percent a year before. In certain of the special currencies the Luxembourg Bourse is the only quotation place. Luxembourg bonds tend to be issued for European companies and countries — no mean thing in the present climate of uncertainty about Latin America.

Backing up Luxembourg's capacity to buy and sell Eurobonds is one of the two international clearing systems, Cedel, with headquarters in the Grand Duchy, which is run by a group of banks and is something of a cooperative, in contrast to the other system, which is managed by Morgan Guaranty out of Brussels. With bond clearing and quotation operations

often centered on Luxembourg, it has picked up other bond business as well: warehousing, paying agent and destruction center. The result is a fee business for banks.

Another support — both for the bond trade and for Eurobonding out of Luxembourg — is the flourishing interbank market, particularly in marks. "Our volume per day can be three times our capital," said Jürgen Förster, newly appointed manager and member of the board of the Luxembourg subsidiary of a *privatebanker*, a small partnership bank from Germany, M.M. Warburg-Binckmann, Wirtz.

Where else with one phone call to a partner can I take or give 60 million marks?" For all the talk about the rise of private banking, most Luxembourg syndicated credits and loans are still funded from the interbank market, 85 percent at the close of the third quarter of 1982.

It is symptomatic of Luxembourg's importance as a bond trading center that the present head of the bond dealer's association is Damien

Wiggy, head of international operations at Kredebank Luxembourg.

Yet, it is no accident that the currency Mr. Förster mentioned to indicate the size of deals he could do in Luxembourg was marks. It was the West German banks — impelled by restrictions at home — who first made Luxembourg an international banking center. And Luxembourg's competitive position — and indeed its survival as a Eurocenter — depend on the West German banks wanting and needing Luxembourg.

An even more startling contingent is the eight-bank Swiss presence. Among the newest banks in Luxembourg are the Swiss, operating fiduciary accounts. These are funds that, under the Swiss banking system, may be transferred on behalf of clients from Swiss banks to their Luxembourg subsidiaries and placed at interbank rates (after the Swiss bank has deducted charges.) The difficulty is that the funds are placed in the name of the Swiss bank while the client bears the risk. But he also avoids the high withholding tax the Swiss impose. Then, too, a Swiss bank can buy gold for a client in Luxem-

bourg without transfer taxes (which would have to be paid in Switzerland.) And the two-year-old Luxembourg bank secrecy law, as any banker who is not Swiss himself would attest, is generally accepted as being even stricter in protecting client secrecy than the Swiss.

This brings up another Luxembourg selling point: tax evasion. It is as a typical Luxembourg banker, and not as a director of the French state-owned Banque Paribas (Luxembourg), that Jacques F. Poos tells potential clients: "It is up to you to declare what is required to the tax authorities responsible."

The French banks in Luxembourg, under their own names or otherwise (Banque Continentale, Banque de Luxembourg) are in the same business as the others, and the nearby border with France must bring them some illicit business. And West Germans find that Luxembourg is a good way to escape that country's annual wealth tax and its inheritance taxes too.

— VIVIAN LEWIS

Growth of Insurance Business Would Help Diversify Market

LUXEMBOURG is already home for two Swedish insurance giants — Electrolux, the appliance firm, and ASEA, the heavy electrical equipment maker — and the Grand Duchy's authorities plan to attract others from other European countries.

Authorities are hoping that insurance companies, controlled by multinational corporations to cut their taxes and gain access to the wholesale end of insurance, will help diversify the Luxembourg financial market, and for four years they have been working to create the preconditions for investment.

The Swedish arrivals are an indication that the concept makes sense, and talks are going on with another half-dozen or so companies from other countries. But Luxembourg, with a relatively high corporate tax rate, is not the obvious place for insurance, compared, say, to Bermuda, where there are more than 8,000 companies.

In Europe, according to Luxembourg's insurance supervisor, Victor Rod, the major competition comes from the Channel Islands and the Isle of Man, which are "close to the London market with tax advantages." Furthermore, Luxembourg still is short of the specialized staff the business will need.

To increase attraction, the government is not offering a general

ized cut in the corporate tax rate to the levels of "exotic" island insurance centers, "but we will give companies the opportunity to create technical provisions to avoid too much profit," according to Mr. Rod. Tax-cutting is only incidental anyway, as the real saving comes in the headquarters country. There, a company will set up a captive in order to insure its own risks while deducting from taxes the premium reserves. If a company pays the premiums to itself, it cannot deduct them from taxes as a cost of doing business. Then, too, when a corporation does not want to cover all its risks, it requires a primary insurer or a captive to gain access to the wholesale market in reinsurance. In the U.S. offshore markets, U.S. court rulings required that captives do a certain amount of non-related insurance business to permit their parents to deduct premiums. As a result, many bought business that other insurers did not want. In Luxembourg, however, according to Mr. Rod, "we don't want captives taking up risks that don't belong to their own parent."

The good name of the Duchy is important to the insurance regulators, who worry about the solvency and solidity of the insurance newcomers. "We are not interested in 'cowboys' without a sound foundation," Mr. Rod said. Already, the

Duchy has attracted one major insurer, Corelux, a subsidiary of La Licorne, the French insurance group. Citibank, which is regularly ranked in its attempts to buy a U.S. insurer, is having talks with the insurance commissioner, American Express, which controls Fireman's Fund in the United States, is also reported to be interested. In addition, marine, aviation and transport risk "clubs" from British mutual insurance groups are based in Luxembourg — and pay a total in premiums of 10 billion francs, more than all 43 domestic insurance companies combined, according to Ernest Muhlen, the treasury minister-delegate and head of the government's insurance study group.

To ease the way for insurance expansion, Luxembourg is counting on the proposed EC directive on freedom of services, which would allow Luxembourg-based companies to sell insurance all over the Community. Then, too, the profession of insurance broker — prohibited under present Luxembourg law — will be legalized for those dealing in international insurance policies. "It is difficult to imagine an international financial center like Luxembourg without professional intermediaries," said Mr. Muhlen, who has introduced a draft bill to change the law.

— VIVIAN LEWIS



Headquarters of the Luxembourg State Bank.

After the Ambrosiano Case: Need for More Regulations?

(Continued From Page 7S)
the Deutsche Bank subsidiary, did not agree.

"The understanding was that the parent company would back it," he said.

"A number of banks lent to the largest private bank in Italy and the subsidiary was felt to be as good as the parent. Many things are still unclear. Despite the strict banking control, the climate has suffered in Luxembourg."

But most bankers feel that if regulatory confusion remains and while Italian authorities failed to provide adequate backing to Ambrosiano, the Luxembourg authorities acted with speed and a good understanding of the situation.

But that is par for the course in Luxembourg, where the government is quick to do what it can for banks.

In recent years this has taken the form of tax breaks — not taxing the capital gains banks earn from

the fall in the national currency for example — and special laws, like the secrecy rules.

"Where else but in Luxembourg can I call up the prime minister and meet him the day after tomorrow?" said Bengt Svennby, managing director of Skandinaviska Enskilda (Luxembourg).

The authorities have also eased the way for Luxembourg, to develop its tax-free gold trade. "Why do you think Pierre Werner [the prime minister] goes to every bank's cocktail party?" one banker asked at the Chase's celebration of its 10th anniversary.

"He has no choice."

Another major area of potential international confusion concerns Luxembourg's growing role as a haven to foreign funds, particularly from France.

There are rumors in Luxembourg of mail being opened by the French customs authorities and

"frontier workers" (who cross the border to work in Luxembourg banks) being blackmailed to provide client lists.

"There have been instances in which we wondered whether procedures were strictly kosher," Mr. Jaans said.

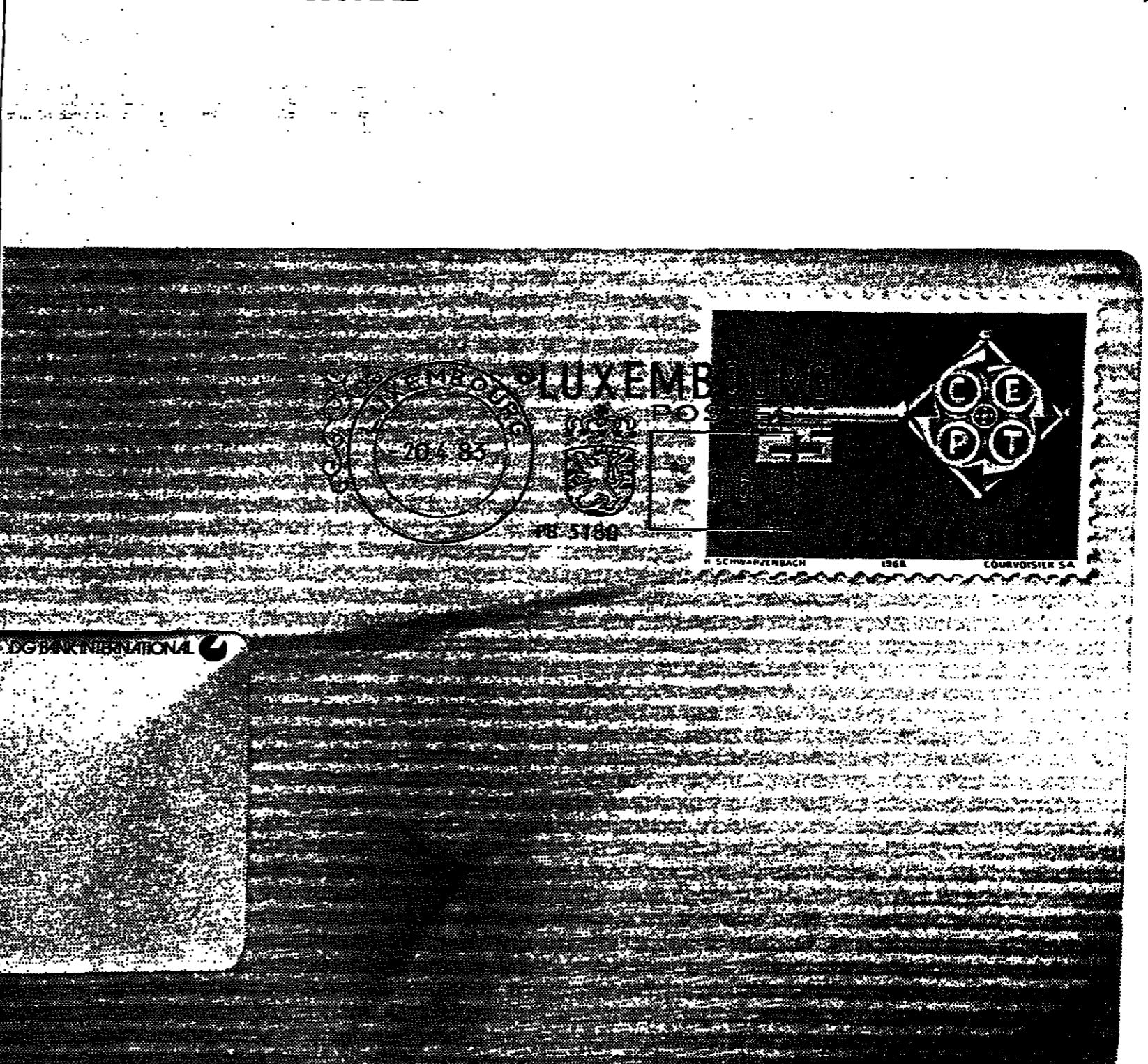
And he added, "arrests would depend on the degree of provocation, if persons were performing activities not in accordance with international agreements."

While concerned not to play up the potential for conflict, he certainly made it clear that Luxembourg would react as strongly as Switzerland did three years ago in arresting two French customs men who were trying to buy a list of bank customers.

"It is not the role of this country to take care of implementing the legislation of neighboring countries," Mr. Jaans said.

— VIVIAN LEWIS

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Rhein-Saar-Lux-LB Balance Sheet '82:

	1982	1981
	In Million DM	
Balance Sheet Total	3,943	3,795
Due from Banks	1,255	1,332
Due from Customers	2,482	2,062
Volume of Credit	3,184	2,831
Securities	118	118
Capital Funds	117	115*

*Rate of Exchange as of 31.12.82

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Siemens Anonyme

BANKING AND FINANCE IN LUXEMBOURG

Low Profitability Cutting Down U.S. Presence

AT CHASE Manhattan's 10th anniversary cocktail party in Luxembourg, Prime Minister Pierre Werner caused a few eyebrows to be raised when he thanked the Chase men "for not having defected." This was not a reference to the recent departure of two U.S. banks from Luxembourg — American Fletcher and European American Bank — but to the decision by the New York bank to stay on in Luxembourg four years ago, after a serious study had been given to closing shop.

Like others of the surviving 10 U.S. banks (soon to be reduced to nine, from a 1973 peak of 16), Chase found after its arrival with fanfare that profits were not that easy to come by. Even after deciding to remain business has not been exactly sparkling and, despite a billion-franc increase in balance sheet totals last year, profits were actually down slightly.

"Private banking is retail bank-

ing with a few flowers," said Bank of America's managing director, Patrick J. Cunningham. At most of the leading practitioner banks in Luxembourg have something to offer. "They had to scratch their heads and think about what to do," Banking Commissioner Pierre Jaunes said. Most banks found themselves a little niche in the banking edifice — or left. Chase, for example, found itself two niches — private banking and commission business for the bond market — both of which it shares with one or another of the U.S. banks in Luxembourg. For Chase as for Bank of America and Bank of Boston, private banking accounts for more than half of operating income.

Oswald von Goertz, managing

10 American Banks Survive From '73 Peak of 16; Private Services Bring More Than 50% of Income

director of Chase, is not willing to allow the more stringent Luxembourg secrecy laws to apply if there is any suspicion that a U.S. client might be engaged in insider trading. "We rarely have an American client," he said. "For an American to open an account in Luxembourg, we would assume the client wants to hide something. We could ask him for a waiver of secrecy if an American authority asked for information. We would not want to jeopardize our American license."

None of the other banks offering

private banking services shared his concern. But Mr. von Goertz may have been reacting to a peculiarity of the Chase hierarchy, which puts Luxembourg and other private banking centers (like the Channel Islands) under William M. Rowan of Chase-Manhattan Switzerland.

Chase's other expertise is in correspondent banking. For example, it acts for the Luxembourg clearing group, Cedel, in the United States. And it is a paying agent, which earns fees and a certain amount of rollover interest. "The borrower pays one or two days before the coupon is due," Mr. von Goertz said. But in this business, of earning fees for services to the banking community, Chase is a weak second to Citibank.

"This is more like a factory than a bank," said Jean-Pierre Fraas, who heads the Citibank operation in Luxembourg. "We provide complementary financial services to other banks and institutions. Our bank is not open to the public." Citibank acts as nominee, paying agent, safe-keeping agent, depositary and even destruction agent for other banks and the Cedel network. Sixty-five percent of the staff work on security, and the bank has an enormous vault to store all that paper safe from theft, counterfeiting and fire. Even after insurance has taken a slice, it is, with Chase, among the top ranking U.S. banks in profitability.

The shift to London is partly a matter of cosmetics. With loan demand off in Germany because of the recession, banks have put business on the books of branches (such as London) rather than subsidiaries (such as Luxembourg). Profits can be moved away from the U.S. banks in Luxembourg had to pay for survival. "Diversification is a useful thing for Luxembourg," Commissioner Jaunes said, "particularly in a period where bank profits are affected by wild interest and exchange rate fluctuations."

The arrival of another newcomer to Luxembourg, Merrill Lynch, has emphasized the appeal of Luxembourg as an investment haven for the rich international client. "They are in the same business as we are — personal banking," said Mr. Champion of Bank of Boston.

And Ernst Muhlen, treasury minister-delegate, noticing that Merrill Lynch was "becoming more active," forecast that other U.S. brokerage houses and some Japanese might choose to follow. "There is business to be done not only in portfolio management, but in the stock exchange, for example in European Depository Receipts," he said. (These enable a share from the United States or Japan to be quoted and traded in Europe.) Merrill Lynch, along with several of the U.S. banks, is an active intermediary on the Luxembourg stock exchange.

— VIVIAN LEWIS

CONTRIBUTORS

CARL GEWIRTZ is associate editor of the International Herald Tribune.

CRAIG ANDERSON is a journalist based in Brussels.

VIVIAN LEWIS is a financial journalist based in Paris.

MICHAEL METCALFE is an economic reporter based in Paris.

Policies Hold Back Recession's Ravages

(Continued From Page 75)

Luxembourg's disbelief was over 24 billion francs in 1981.

Since 1976, Luxembourg has mounted a major campaign to draw new industry to the Grand Duchy, partly to compensate for the loss in jobs caused by the ARBED steel crisis and partly for the trade imbalance. During the period up to the end of last year, 47 companies have taken advantage of good industrial locations, certain tax advantages and a central geographical situation to set up or plan to set up business in the Grand Duchy. As of 31 December 1982, some 2,380 were employed with the new firms already in operation and a further 500 to 1,000 jobs in the pipeline.

The figures may sound small but in a country where 2,200 unemployed make up 1.7 percent of the workforce, and the Grand Duchy's highest ever unemployment rate, the numbers count for much. The new industries range from chemicals and plastics to glass and aluminum and will inject a fresh lease of industrial life into the northeast and the more deprived southern regions of Luxembourg.

Also on the bright side, Mr. Santer said that government has managed to keep to its declared aim to push the budget deficit below 3 percent of GDP, with 2.8 percent achieved in 1982 and 1.4 percent projected for 1983, although the ceiling for next year will be harder to adhere to.

Inflation has also been held relatively in check, limited to 9.4 percent in 1982 and 8.1 percent in the previous year, thereby holding to within the government's declared ceiling of 10 percent.

— MICHAEL METCALFE



Ekkehard Storck
Deutsche Bank

Germans: A Strong Presence

(Continued From Page 75)

Deutsche Bank and should use the currency of the country," said Ekkehard Storck of Deutsche Bank.

Yet, for all his defense of Luxembourg, most recently in a long lecture at the Capital Markets Society at Goethe University in Frankfurt, Mr. Storck said that Deutsche Bank was shifting some of its operations to London when they originate in countries with a high withholding tax. "We can use the tax against British taxes because of double taxation agreements," he said. "There is a limited possibility to absorb withholding taxes by offsetting against Luxembourg's taxes." The lack of a double-taxation agreement network in the Grand Duchy affects German and other banks which have alternative Eurobanks — and which earn profits.

The shift to London is partly a matter of cosmetics. With loan demand off in Germany because of the recession, banks have put business on the books of branches (such as London) rather than subsidiaries (such as Luxembourg). Profits can be moved away from the U.S. banks in Luxembourg had to pay for survival. "Diversification is a useful thing for Luxembourg," Commissioner Jaunes said, "particularly in a period where bank profits are affected by wild interest and exchange rate fluctuations."

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— VIVIAN LEWIS

A \$98-Billion Share In International Debt

(Continued From Page 75)

all foreign loans to West German corporations in 1980. By the end of 1982, West German banks based in Luxembourg were accounting for barely 40 percent of foreign loans.

The depreciation of the Luxembourg franc brought other problems in its wake. Most Luxembourg banks have their capital denominated in Luxembourg francs while their assets are predominantly in dollars. As the Luxembourg franc sank against the dollar, so capital-to-assets ratios came under pressure. This put a brake on assets building and saved Luxembourg banks from some of the wilder "loans, counterfeited by banks" in other countries.

The heaviest providers among the Luxembourg banks are the West German banks. In 1981, Commerz International declared no after-tax after-provisions profit. But the bank's pre-tax provisions profit of 613 million francs was sufficient to propel it to 15th place in the ranking of the center's most profitable banks. Commerz International is a traditional lender to the West German construction industry, which was hard hit by the onset of the recession. The bank was also recovering from an earlier disastrous misjudgment over the path of interest rates. It had been caught in the embarrassing bind of lending long at low interest rates while funding short at high rates.

The fact that most West German banks in Luxembourg have been lending back into West Germany has meant that they, too, have had to make provisions against such corporate borrowers as AEG. Since Dresdner Bank is AEG's lead bank, it is reasonable to assume that Dresdner's Luxembourg subsidiary, Compagnie Luxembourgeoise de la Dresdner Bank, would have to make substantial provisions against that risk.

But the importance of West German banks based in Luxembourg in providing funds for West German industry is decreasing. According to Bundesbank figures, West German banks based in Luxembourg provided 55.7 percent of

MONDAY, JUNE 13, 1983

EUROPE

Doubtful Over

Dealers Trim

LONDON

French

Bank

Interest

Rate

FINANCIAL HIGHLIGHTS 1982

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- forfaiting and guarantees
- money and foreign exchange trading
- securities and precious metals trading
- acting as trustee
- accepting of deposits
- portfolio management

— in billion Flux —	
92.3	Balance sheet total
46.0	Volume of credits
41.1	Due from banks
1.8	Securities
85.4	Deposits
3.0	Capital funds

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* The complete balance sheet as well as the profit and loss account will be published in the MEMORIAL, official gazette of the Grand-Duchy of Luxembourg, edition C.

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as per Dec. 31, 1982
Balance Sheet Total 5250
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Claims on Banks 4563
6521
Credit Volume 235
Capital Funds incl. Profit of the Year 250
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as per December 31st

in DM million

1981 1982

Due from Banks 1,028 1,265

Loans 1,401 1,171

Deposits 2,456 2,596

Subscribed Capital 53 101

Paid-in Capital 53 71

BUSINESS/FINANCE

MONDAY, JUNE 13, 1983

Page 17

EUROBONDS

By BOB HAGERTY

Doubtful Over Rally Prospects, Dealers Trim Back Inventories

London — Coming off last week's slump, Eurobond dealers are awaiting a run from the U.S. bond market with much anxiety and little optimism. The gloom is so thick that investors who favor a contrary approach might want to take note.

Prices on older Eurobonds fell by around 1/2 to 1 point last week. General Motors Acceptance Corp.'s 10½-percent bonds maturing in 1990, for example, slid to 93½ from 94½.

Dealers, disheartened about the prospects for a major rally, were tightening inventories built up earlier in the year. Investors made themselves scarce, figuring there was little risk that they were about to miss out on a boom.

"At the end of the week, many dealers said the inventory pruning was likely to continue, especially because Eurobond yields still appeared low compared with those yields available in the U.S. market."

Even the relatively bullish were subdued. "The market is finding around the bottom," one dealer said, "and we will have a pop up again, but it isn't likely to be anything dramatic."

The most popular anxiety of the week involved the closely related questions of whether rambunctious money supply growth was forcing the Federal Reserve to tighten up on credit and whether Paul A. Volcker would be re-appointed chairman.

Until those questions are answered, reading the U.S. credit outlook will be difficult. "Ironically, I think the market would do a lot better if the Fed did tighten up," said Mark Turner, a vice president at Citibank. Such a move probably would boost interest rates further in the short run but also would remove uncertainty.

Should President Ronald Reagan run out Mr. Volcker, the market would have new worries. "The market has grown accustomed to his," one dealer noted.

On Friday, the credit market received a pleasant surprise: The Fed reported that the M-1 money supply grew a mere \$100 million in the latest week. The market had feared a bloating of \$2 billion or more. But next week's news is expected to be worse as tax refund money gushes in. And as one dealer remarked, "It will take more than one week of good news to improve sentiment in this market."

Against this background, several new issues sputtered last week. State Bank of New South Wales, a new name in the market, got a wistful welcome. Its \$100 million of seven-year notes were priced at par, or 100, bearing 11½ percent. They ended the week at about 97½, more than wiping out the 1½-point commission allowed for underwriters.

Japan Air Lines offered \$75 million of 10-year bonds priced at par and bearing 11 percent. That issue ended the week at about 98.

Both issues involved interest-rate swaps, in which the bond issuer trades its fixed-rate money for another party's variable rate funds. The need to time such issues for the other party's convenience makes them liable to market at an opportune moment.

Harsh Medicine for Drug Company

Then there was the \$125-million, 10-year issue from Richardson Vicks, a U.S. pharmaceutical company. Issued at par with a 11½-percent coupon, it slumped to around 97½ by Friday afternoon. Since the paper rated two grades below prime quality, "it needed an accommodating market," one of the managers conceded.

One dealer was worried that the maker of Vicks VapoRub could fail to soothe the ailing market. "How can you say no to that?" the dealer asked. "Your mother used to rub it on your chest."

No such cruel greeting was in store for the European Community. Its \$1.3-billion issue of floating-rate notes went on sale Friday morning. Despite the record size of the offering, the issue was half sold out by late in the day. Credit Suisse First Boston, the lead manager, reported.

The notes mature in seven years, but investors have the option of repayment after five.

The market's initial response was less reserved than that for Sweden's \$1.2-billion issue, which set the previous record when it came out in January. Dealers said that the European Community was regarded as a slightly better risk than Sweden and that the Swiss have paved the way for its success. Back in January, noted Mitchell Shivers of Samuel Montagu & Co., "the market wasn't used to billion-dollar deals."

The issue is part of a \$3.7-billion package the European Community is putting together to finance a loan for France. Most of the rest of the loan (Continued on Page 19, Col. 1)

Wall Street's Big Five in Treasury Debt

By Michael Quint

New York Times Service

NEW YORK — Wall Street is full of middlemen whose business is to bring buyers and sellers together and extract a profit along the way.

In the Treasury market, the world's largest securities market with more than five times the dollar volume of the New York Stock Exchange, middlemen have carved a special niche. Because there is no central trading floor for Treasury issues, a handful of middlemen broker firms have evolved to execute trades between securities companies.

"Brokers are, in effect, an exchange," said Richard A. Spelke, senior vice president at Security Pacific National Bank of Los Angeles, which owns R.M.J. Securities, a government securities broker. "They provide the Treasury bond market with the same service that the New York Stock Exchange provides to the equity market."

R.M.J. and the four other major brokers in the Treasury market are crucial to the bond traders whose decisions help determine whether interest rates rise or fall. The investing public, whether a pension fund buying \$100 million of bonds or an odd-lot buyer of \$10,000 of Treasury bills, does business with a securities firm but seldom with one of these specialized brokers.

The industry is moving toward increased use of brokers," Mr. Spelke said. "We see strong growth continuing, assuming that the federal deficit problem is not solved."

The Treasury brokers could be the only firms on Wall Street to rejoice over a \$200-billion federal budget deficit. To them, large deficits mean big trading volume and large profits, whether prices are rising or falling. Although brokers do not publicize their revenues or profits, everyone in the business is said to be making a good living.

Security Pacific is not the only large financial company to see opportunity in the brokering business. A British company ac-

(Continued on Page 21, Col. 5)



Richard Jackson, president, R.M.J. Securities

Larry Seffer, executive vice president, Cantor, Fitzgerald Securities

Edmund Lunder, president, Fundamental Brokers

Wall Street's Network Of Government Securities Brokers

1 Garban Ltd.

120 Broadway

First broker to display prices on video screens... Purchased for \$26 million last May by Mills & Allen P.L.C., a diversified British company... Now employs 52 brokers.

2 Fundamental Brokers

90 John Street

Founded in 1970... largest broker of Treasury and agency securities, acquired in 1980 by Mercantile House Holdings P.L.C., a British financial services company... employs 100 brokers.

3 R.M.J. Securities

130 John Street

A division of Security Pacific National Bank since May 1982... Formed in 1968, after the original company merged with Fundamental Brokers... 135 employees.

4 Chapdelaine & Company

2 Exchange Place

Richard F. Chapdelaine started the firm in 1974... Known to traders as "Chappy"... Smallest of the four brokers who serve only the major Government securities dealers, employing 60 brokers.

5 Cantor, Fitzgerald

One World Trade Center

Started in 1972... Does not serve only dealers, but transmits prices through Telerate Systems, and reaches 6,000 regional securities firms and other large investors... 46 brokers and an equal number of assistants.

The New York Times

5 WORLD TRADE CENTER

20 BROADWAY

120 BROADWAY

90 JOHN STREET

130 JOHN STREET

2 EXCHANGE PLACE

120 BROADWAY

Dealers Cut Inventories

(Continued from Page 17)
lack is expected to come from a dedicated loan. For that reason, the issuers hope that banks will ass along most of the notes to the investors and save their options for big slices of the loan.

One manager estimated that about half the issue was going to banks. Japanese banks, in line with their usual liking for high-quality notes, were reported to be especially eager for the EC paper.

Meanwhile, a group of banks and securities houses led by Union Bank of Switzerland (Securities) Ltd. was lining up an unusual equity offer by Bell Canada Enterprises, the parent of Bell Canada.

The company, which is Canada's leading telephone service concern, now owns 33.4 percent of the equipment maker Northern Telecom, plans to offer about 12 million shares. The exact amount will not be determined until just before the issue is priced on June 2, the managers say.

The unusual feature is that three separate underwriting syndicates are peddling the paper: one for Canada, one for the United States and one for the rest of the world.

The third group, expected to take about two million shares, is led by Bell Canada's usual Eurobond managers. The issue gives Bell Canada a chance to cash in on the good name it has established in the Eurobond market.

At the same time, the company is rewarding its faithful bond underwriters with attractive commissions. "It's a lovely way of putting commissions in the pockets of foreign underwriters," said one bank involved in the offer.

The European issuers hope to sell their allotment of the shares, to be quoted in U.S. dollars, at close to the prevailing market price on June 22. One underwriter involved in the deal estimated that a discount of at least 25 cents will be necessary. On Friday, Bell Canada shares closed in New York at \$1.375.

International Herald Tribune

Carl Gavitt's column will resume next week.

Japanese Visit Iran For Talks on Project

Reuters

TEHRAN — A Japanese delegation is holding talks with the Iranian government on completing the big petrochemical complex at Bandar Khomeini on the Gulf, Japanese sources said Saturday.

A Japanese consortium led by the Mitsubishi group agreed in principle last month to resume work on the complex, which was 85-percent complete when fighting between Iran and Iraq halted construction in September 1980.

Such linkages imply that both

NEW EUROBOND ISSUES

Borrower	Amount (millions)	Maturity	Coupon %	Price	Yield At Offer	Terms
Council of Europe	DM 50	1988	open	open	—	Coupon indicated at 8%. Noncallable. Terms to be set June 15.
Council of Europe	DM 150	1993	open	open	—	Coupon indicated at 8%. First callable in 1991 at 101. Sinking fund to start in 1988. Terms to be set June 15.
Copenhagen Telephone	DM 100	1993	8 1/4	100	8 1/4	Coupon indicated at 8%. Each 4,000 DM note comes a warrant exercisable into 1,000 shares of anticipated 2.5% premium. Terms to be set June 13.
Islemer	DM 100	1988	8 1/4	100	8 1/4	
Rhythm Watch	DM 50	1988	open	open	—	
Dart & Kraft Finance	NZ\$ 10	1988	15 1/4	99 1/2	15.40	Noncallable.

Third-World Strategy Shifts Seen at Uncad

(Continued from Page 17)

conference has already shown that nothing concentrates the capitalist mind so wonderfully on the problems of the poor as the threat of a banking crisis and a threatened recovery.

It was the realization last summer that Mexico, Brazil and Argentina were about to drown in a sea of debt, taking much of the U.S. banking system with them, that caused the Reagan administration to reverse itself overnight and back a bigger International Monetary Fund and more lending to the Third World.

Since then, the industrial world has come to realize that its own hopes of economic recovery are inextricably bound to economic development in the Third World. The notion of interdependency is finally being taken seriously. The argument runs like this:

The Western upturn will fail if the Third World cuts back on imports. But to import, it needs money. So the IMF must be enlarged and banks encouraged to continue lending. But banks will not lend unless they see developing countries starting to earn their way out of debt. And the Third World cannot export if the industrial world goes protectionist, unless new markets are opened up to its industry in return. So the better-off developing countries must also reduce their protectionism.

Such linkages imply that both

North and South must act together to insure global economic recovery and bury the idea that an upturn in the West would gradually crush the Third World too.

But differences remain on whether North and South should completely recast the international economic system or merely tinker with it.

While the Third World wants automatic debt relief over the next two years, the West still prefers a case-by-case approach, though it does not rule out a new approach if this proves necessary. As Gordon Streeter, the assistant secretary of State who is the U.S. delegation leader at Uncad VI, said: "If, for example, the current efforts to prevent a debt crisis are not sufficient, there will be a serious look at whether we need to do something more fundamental — a greater injection of liquidity, or so forth."

Another difference between North and South is over Uncad's competence. Northern countries want to safeguard the authority of international bodies like the IMF, the World Bank and the General Agreement on Tariffs and Trade, arguing that each must be left to decide on changes in the fields under its jurisdiction. But the South wants the trade conference to adopt resolutions urging these bodies to increase aid disbursements, issue more Special Drawing Rights, and so on.

Commodity price supports also

are likely to be a topic of lively discussions at Uncad.

Originally, the Third World wanted to create a series of commodity agreements that would lift raw material prices. Such schemes were a key element in the Third World's early ideas for a new international economic order.

Finally, a more modest scheme was agreed upon. This provides for Uncad countries to chip in \$750 million to create a "common fund" that they would borrow money on the private market to finance the costs of price stabilization schemes for up to 18 commodities ranging from bananas to phosphate rock.

But the prices set under the schemes must be approved by both producing and consuming countries. The aim is to prevent wide price swings by withholding stocks when demand is weak and releasing them as it strengthens.

So far only five such agreements have been made, but recession has wrecked two of them in the last two years and demonstrated that the other three could provide producers with only very limited protection.

The tin agreement is generally accepted as the most successful, largely because there are only a few producers and all of them can afford to withhold substantial stocks from the market. The main producers are Malaysia, Bolivia, Thailand and Indonesia. Currently they are being forced to stockpile roughly

Eagle Computer Is One Example Of How Issues Can Be Rescinded

By Vartan Vartanigian
New York Times Service

NEW YORK — The unexpected can ruin the best of plans.

Last Wednesday Eagle Computer Inc., a successful new computer company in Los Gatos, California, made its initial public offering of stock to the public — always a proud day for a fledgling company. The 2.75 million shares were offered at \$13 in the over-the-counter market and rose to \$17 before closing at \$15.50. Hours later, the company's president and chief executive officer, Dennis R. Barnhart, 40 years old, died in a automobile crash.

Eagle Computer's directors decided to rescind the stock offer and said they planned to make it again after the prospectus and registration statements could be revised to reflect the changes in management.

When an issue is rescinded, it is done in the time period, usually a week, between the "effective date," when the price is declared and selling and trading begin, and the "closing date," when the company actually collects its money and distributes its securities through an underwriter to buyers.

Trading done between those two dates is done on a "when-issued" basis so that if the offer is withdrawn, the stock in the secondary market are, in effect, canceled.

(A) any such person whose holding of partly paid Bonds is shown in the records of CEDEL S.A. ("CEDEL") must either:

(i) authorise CEDEL, not later than its opening of business on 5th July 1983, to debit his account with CEDEL on that day with the amount due in respect of his holding of partly paid Bonds as shown in CEDEL's books at its close of business on 5th July 1983 at the rate of U.S. \$800 per Bond per Bond, or

(ii) make payment of the amount due in respect of his holding of partly paid Bonds, at the rate of U.S. \$800 per Bond, in same day funds to the account of CEDEL at The Chase Manhattan Bank, N.A., at 1 Chase Manhattan Plaza, New York, New York, 10061, Account No. 001-187374, in favour of GenFinance Installment Collection Account, by not later than 10.00 a.m., New York time, on 5th July 1983.

(B) any such person whose holding of partly paid Bonds is shown in the records of The Euro-clear Clearance System PLC ("Euro-clear") must authorise Euro-clear, not later than its opening of business on 5th July 1983, to debit his account with Euro-clear on that day with the amount due in respect of his holding of partly paid Bonds as shown in Euro-clear's books at its close of business on 5th July 1983, at the rate of U.S. \$800 per Bond.

GenFinance N.V. is entitled to accept payment of the final instalment of any Bond at any time after the due date. No payment made after the due date shall be accepted unless accompanied by a further payment representing interest accrued at the rate of 14% per cent per annum. GenFinance N.V. may elect at any time after 20th July 1983 not to accept payment and shall be entitled to retain the first instalment of any Bond for which the final instalment has not been received and shall be discharged from any obligation to pay interest for any period subsequent to 5th July 1983 on, or to repay such first instalment.

Neither CEDEL nor Euro-clear will clear any transactions in the Bonds for settlement on or after 6th July 1983 unless such transactions are in fully paid Bonds.

GenFinance N.V.

U.S. \$100,000,000

11 1/4% Bonds Due 1990

Paid as to U.S. \$200 per Bond
and payable as to U.S. \$800 per Bond
on 6th July 1983.

Notice to Bondholders

NOTICE is hereby given to persons entitled to Bonds that payment of the final instalment of U.S. \$800 per Bond is due to be made to GenFinance N.V. on 6th July 1983 ("the due date") in immediately available funds. Accordingly:

(A) any such person whose holding of partly paid Bonds is shown in the records of CEDEL S.A. ("CEDEL") must either:

(i) authorise CEDEL, not later than its opening of business on 5th July 1983, to debit his account with CEDEL on that day with the amount due in respect of his holding of partly paid Bonds as shown in CEDEL's books at its close of business on 5th July 1983 at the rate of U.S. \$800 per Bond per Bond, or

(ii) make payment of the amount due in respect of his holding of partly paid Bonds, at the rate of U.S. \$800 per Bond, in same day funds to the account of CEDEL at The Chase Manhattan Bank, N.A., at 1 Chase Manhattan Plaza, New York, New York, 10061, Account No. 001-187374, in favour of GenFinance Installment Collection Account, by not later than 10.00 a.m., New York time, on 5th July 1983.

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Neither CEDEL nor Euro-clear will clear any transactions in the Bonds for settlement on or after 6th July 1983 unless such transactions are in fully paid Bonds.

19th June, 1983

GenFinance N.V.

U.S. \$100,000,000

Citicorp Overseas Finance Corporation N.V.

10 3/8% Guaranteed Notes Due May 11, 1990

The Notes are unconditionally guaranteed by:

CITICORP

MORGAN GUARANTY LTD.

ALGEMENE BANK NEDERLAND N.V.

BANQUE NATIONALE DE PARIS

DAIWA EUROPE LIMITED

GOLDMAN SACHS INTERNATIONAL CORP.

LTCB INTERNATIONAL LIMITED

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SOCIETE GENERALE

SWISS BANK CORPORATION INTERNATIONAL LIMITED

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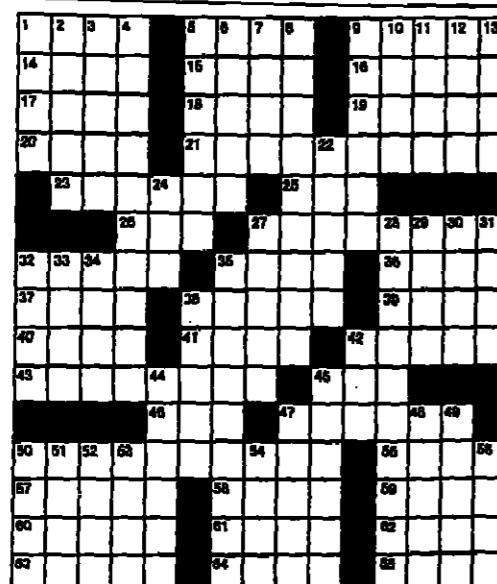
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BANKAMERICA CORPORATION



CROSSWORD



ACROSS

1. Glass from
2. Fitzgerald specialty
3. Participate at
4. A bee
5. "The Wizard of Oz."
14. Ripped
15. Dumb
16. Daughter
17. Where Burma is
18. King or States
19. Illinois city
20. Sound from a wind chime
21. Site in a Foundation film
22. Someone from End
23. Tel. line
24. Head original
25. Mystery
26. Explosion
27. A star of
28. "Come Back to the 5 & Dime..."
29. Mats
30. Kennedy
31. "I have a new name": Rukeyser
32. Actor Richard
33. A shamed side
41. Bonanza
42. Building material

DOWN

1. Hornist's headache
2. Nocad's delight
3. A minimal, short
4. Hepburn file:
5. Hepburn TV movie
6. Distract
7. Russian see
8. Most delicate
9. Angles
10. Succulent part of fruit
11. Outside: Combs, form
12. Hepburn's "The... in Winter"
13. Advances
14. oneself (endeavor)
15. To no degree
16. To the 28th Down
17. Hepburn film:
18. Lawyer's org.
19. Nocad's umbrella
20. Settled in cozily
21. It can be "your umbrella"
22. A customer
23. "— is an friend..."
24. An episode
25. Hepburn's
26. Search
27. One, in Rom
28. Blow one's own horn
29. Lounge
30. Not above
31. Impose restrictions
32. Fragrances
33. Lawyers
34. Nocad's
35. Settled in cozily
36. It can be "your umbrella"
37. A customer
38. "— is an friend..."
39. An episode
40. Hepburn's
41. Hepburn TV movie
42. Hepburn's
43. Hepburn's
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65. Hepburn's

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DENNIS THE MENACE



"WHY DON'T YOU GIVE UP, MARGARET? I ALREADY GOT A MOTHER AND I DON'T WANT A SISTER... AN' I'M NEVER GONNA GET MARRIED!"

JUMBLE

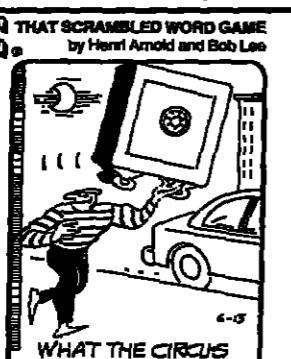
Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

KANLY

CAXTE

REJESY

RIMPIA



Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer here: A **□□□□** OF **□□□□□**

(Answers tomorrow)

Friday's Jumble: GULCH TIGER HERMIT PUNDIT

Answer: What that congressman always did when he finally got the floor—HIT THE CEILING

WEATHER

EUROPE

ASIA

	HIGH	LOW		HIGH	LOW	
Alvarez	29	24		26	21	
Amsterdam	29	24		26	21	
Athens	27	21		24	19	
Bangkok	27	22		24	19	
Brussels	23	23		23	23	
Bucharest	25	23		23	21	
Calcutta	27	23		24	20	
Caracas	27	23		24	20	
Copenhagen	27	23		24	20	
Costa Del Sol	29	23		27	21	
Dublin	25	23		23	21	
Edinburgh	25	23		23	21	
Florance	25	23		23	21	
Geneva	25	23		23	21	
Helsinki	25	23		23	21	
Istanbul	25	23		23	21	
Las Palmas	25	23		23	21	
Lisbon	25	23		23	21	
London	25	23		23	21	
Madrid	25	23		23	21	
Milan	25	23		23	21	
Moscow	25	23		23	21	
Munich	25	23		23	21	
Nice	25	23		23	21	
Oslo	25	23		23	21	
Paris	25	23		23	21	
Prague	25	23		23	21	
Reykjavik	25	23		23	21	
Rome	25	23		23	21	
Rome	25	23		23	21	
Stockholm	25	23		23	21	
Vienna	25	23		23	21	
Vienna	25	23		23	21	
Zurich	25	23		23	21	
MIDDLE EAST						
Astana	77	55		55	45	
Bahrain	77	55		55	45	
Beirut	77	55		55	45	
Jerusalem	72	52		52	42	
Tel Aviv	72	52		52	42	
OCEANIA						
Auckland	13	22		22	11	
Sydney	13	22		22	11	

Cloudy; (n-rain); (n-hail); (n-overcast); (n-partly cloudy); (n-rain); (n-snow); (n-storm)

MONDAY'S FORECAST — CHANNEL: Generally calm. FRANKFURT: Overcast with intermittent rain. Temp: 70 (72-70). LONDON: Partly cloudy, becoming overcast. Temp: 68 (70-66). PARIS: Partly cloudy. Temp: 65 (68-64). NEW YORK: Partly cloudy. Temp: 73 (75-74). ROME: Partly cloudy. Temp: 73 (75-74). TOKYO: Partly cloudy. Temp: 70 (72-68). BANGKOK: Partly cloudy. Temp: 75 (78-77). HONGKONG: Partly cloudy. Temp: 73 (75-74). SINGAPORE: Partly cloudy. Temp: 73 (75-77). MANILA: Cloudy. Temp: 73 (75-77). SEOUL: Cloudy. Temp: 71 (74-72). ST. PETERSBURG: Thunderstorms. Temp: 73 (75-77). TOKYO: Rain. Temp: 73 (75-77).

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PEANUTS



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SPORTS

Caveat Wins Belmont Stakes As Slew O' Gold Finishes 2d

By Steven Crist

New York Times Service

NEW YORK — The winner of the third leg of the Triple Crown was tipped off everywhere you looked Saturday: all over the program, on the infield flowerbeds, on the starting gate, on the sign at the front of the track and on the name of the race itself. The winner of the Belmont Stakes at Belmont Park was Caveat, a colt owned by Angus Belmont 4th, in whose family's honor the race and the track are named.

The 115th Belmont had shaped up as a two-horse race between Caveat and Slew O' Gold, and that's exactly how it was developing as the field turned for home. Then Laffit Pincay and Caveat bailed their way through on the rail, rushed past Slew O' Gold on the inside, and won by 3 1/2 widening lengths. The winner was clearly best.

This was the second straight Belmont victory for Pincay and for Woody Stephens, the winning trainer, who teamed up with Conquistador Cielo to win the race last year. Caveat — the Latin word for "let him be warned" or just "a warning" — is owned in partnership by Belmont and by James Ryan's Ryehill Farm, which bred the son of Cannonade and Cold Hearted. Caveat earned his owners \$215,100 from a record purse of \$358,500.

Caveat paid \$7.20 for \$2 to win as the second choice of the crowd of 60,397 in a record field of 15. Slew O' Gold, the eight favorite at 2 to 1, finished 1 1/4 lengths ahead of Barbizon, who nosed out Magnifico and High Honors, the third choice at 9-2, for third place. Deputized Testimony, the fourth choice at 9-1, was another half-length back.

The winning time of 2:27.8 for the mile and a half was relatively undistinguished over a very fast track that was yielding superior times all day.

Immediately after the finish, the Belmont stewards posted the inquiry sign and studied the films of the far turn, when Caveat twice brushed against Au Point as he whisked past him on the inside. Slew O' Gold, who had taken the lead briefly, seemed to be squeezing them both on the rail, and Pincay appeared to have gone through a very narrow opening. But the stewards decided the brushing had been negligible and let the result stand.

This was the second straight year in which a different horse won each of the Triple Crown races and in which no horse ever started in all three races. Sunnym's Halo, who won the Kentucky Derby, finished sixth in the Preakness, and Deputized Testimony, the Preakness winner, finished sixth on Saturday.

Sunny's Halo was held out of the Belmont because his handlers did not think he could handle a mile and a half.

and a half at this point in his career.

Caveat, Sunnym's Halo and Slew O' Gold might hook up in a definitive rematch in the Travers Stakes at Saratoga on Aug. 13. Caveat was the eighth different winner of the Grade 1 stakes for 3-year-olds this year.

Two days before the Belmont, Stephens said that this year's 3-year-olds were "not much" and that "there are no Conquistador Cielos" in the Belmont field. Stephens does not put Caveat in the same league with Conquistador Cielo and many of the other stakes winners he has trained. Until he won the Derby Trial on April 30, in fact, Caveat had no victories in 11 races on the dirt.

Since then, however, the colt seems to have improved. He won the Derby Trial, finished a fast-closing third in the Kentucky Derby, then easily defeated older allowance horses in a Belmont tune-up. Stephens says he still believes that Caveat's real future is in racing on the grass, where his lack of early speed is not as much of a disadvantage.

"He's really come around over his last three races," Pincay said. Stephens was already warning not to expect too much from the winner.

When they straightened away in the stretch, Caveat went right by Slew O' Gold, and no one was gaining any ground on him at the finish.



Caveat (right) racing to the wire in front of Slew O' Gold in the Belmont Stakes.

How the Pincay-Stephens Team Made the Record Books

By George Vecsey

New York Times Service

NEW YORK — Woody Stephens is hardly the only member of the Laffit Pincay Jr. fan club, but he's willing to be a life member after Saturday's hard ride along the rail that put the two of them in the record books.

Pincay's ride on Caveat made him and Stephens the second jockey-trainer combination to win back-to-back Belmonts, following last year's romp on Conquistador Cielo. Ron Turcotte and Lucien Laurin accomplished it in 1972-73 with Riva Ridge and Secretariat.

The Panamanian jockey and the Kentucky-bom trainer don't work together often, but when they do, the sparks fly. Part of it has to do with Stephens having enough stature in the training business to only handle good horses; part of it has to do with Pincay being able to pick his spots.

And part of it has to do with Pincay, at 36 years old, remaining at the top of his form and Stephens, three months shy of his 70th birthday, becoming a legend.

Stephens spoke of his admiration for Pincay on Saturday afternoon while standing in his customary post-Belmont position, on the stairway of the press box with a glass of Scotch in his hand. "I came from Kentucky but, you know, I've never really liked bourbon," Stephens admitted.

He remembered a 1974 race in Florida that neither Pincay's nor his horse won, but he liked the way Pincay rode. By that time, Pincay had been the leading money-winner in the United States for four consecutive years, but Stephens was now officially in

retirement. "I finished third in the Derby and

Pincay

held him out of the Preakness. But

the colt was ready Saturday and Pincay was, too. The jockey rode his day's schedule in California, then took the red-eye flight to New York, arriving at 6:30 A.M.

"It doesn't bother me the first day," said Pincay, who was preparing to fly right home to California before the jet lag caught up with him.

They did just enough business that Pincay got out of a taxicab. Stephens recalled Saturday, "I said, 'Who are you riding for?' He said: 'For you.'"

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SPORTS BRIEFS

Chinese Sets High Jump Record

BEIJING (UPI) — Zhu Jianhua set a world record in the men's high jump on Saturday with a leap of 2.37 meters (7 feet, 9 1/2 inches) during a national track and field competition here.

Zhu, a 20-year-old native of Shanghai, broke the record of 2.36 meters set by Gerd Wessig of East Germany in 1980.

The 1.93-meter-tall high jumper broke the record in his first attempt. He made an unsuccessful attempt at the world record during an international track meet here last June and failed again at the Asian Games in New Delhi last December.

Connors Tops McEnroe for Title

LONDON (AP) — Jimmy Connors beat John McEnroe, 6-3, 6-3, here Sunday to retain his title in the Grand Prix tournament at the Queens Club.

It was the last big warm-up event on grass before Wimbledon.

The match was a repeat of the final last year, when Connors won this title and then went on to win Wimbledon.

In Saturday's semifinals, Connors defeated Ivan Lendl, 6-0, 6-3, while McEnroe beat Kevin Curren, 7-5, 7-6.

Jimmy Connors

Yugoslavs Beat Spain in Davis Cup

MADRID (AP) — Yugoslavia upset Spain in the second round of the European Zone B Davis Cup tennis tournament on Sunday by winning the five-match series 3-2. Slobodan Zivojinovic clinched the series for Yugoslavia by defeating Sergio Casal, 5-7, 3-6, 6-4, 6-3, 6-4, in the first of Sunday's two singles matches.

In the semifinals next month, Yugoslavia will play either Bulgaria or Finland. In other Zone B play Hungary defeated Zimbabwe, 4-1, to earn a chance to play Austria, who beat Norway, 4-1.

In Zone A, Switzerland completed a 5-0 victory over Greece and will play the Netherlands as the Dutch team beat Egypt, 4-1. Israel defeated Monaco, 4-1, and West Germany eliminated Belgium, 5-0.

King Wins Event in Birmingham

BIRMINGHAM, England (UPI) — Billie-Jean King won the Wimbledon tune-up tournament here Sunday by defeating Alycia Moulton, 6-0, 7-5. It took the 39-year-old King, still ranked 10th in the world, just 58 minutes to defeat her fellow-Californian, 18 years her junior.

In Saturday's semifinals, Moulton advanced when Zina Garrison retired with an injured neck while she was losing, 0-5, in the first set. King beat Anne White, 7-5, 6-2.

Blackledge Signs With NFL Chiefs

KANSAS CITY, Missouri (AP) — Todd Blackledge, the quarterback who led Penn State to a 27-23 triumph over Georgia in the Sugar Bowl, has signed four one-year contracts with the Kansas City Chiefs of the National Football League for an estimated \$1.5 million to \$2 million.

"Five or six years ago, when you started setting goals for yourself, you always thought of the NFL," said Blackledge, who had considered playing for the Philadelphia Stars of the United States Football League. "Living in Canton [Ohio], I would go to the Hall of Fame all the time and sit there and watch those films have every hour, so it always was the NFL."

Stallions, Federals Win in USFL

BIRMINGHAM, Alabama (UPI) — The Birmingham Stallions used a half-control offense and a swarming defense that forced four interceptions to beat the Boston Breakers, 31-19, Saturday night in the United States Football League.

In Tempe, Arizona, Craig James scored a touchdown midway through the fourth quarter to give the Washington Federals an 18-11 victory over the Arizona Wranglers.

Deal for Zico Formally Concluded

RIO DE JANEIRO (AP) — Representatives of the Italian soccer club Udinese have signed an agreement to purchase the star midfielder Zico from Flamengo — Brazil's largest team — for \$4 million.

Eduardo Motta, vice president of Flamengo, said that Udinese had given the Rio team \$400,000 on Friday as a down payment. The remainder of the money is to be paid by next Friday.

The sale was approved Thursday by Flamengo's team directors, and Zico signed his contract. Zico's attorney had signed a preliminary agreement last week, beating the ban on foreign players imposed Thursday night by the Italian soccer federation.

Ballesteros Blasting Out of a Bunker

In Atlanta, Jack Nicklaus doubled home a pair of runs in the 10th to give San Francisco a 6-4 triumph in the opener of a doubleheader, but the Braves won the nightcap, 7-3.

Orioles 3, Red Sox 0

In Atlanta, Ferguson Jenkins pitched a four-hitter and Judy Powell drove in four runs to lead Baltimore to a 7-0 victory over St. Louis. Jenkins (13-7) struck out four and walked one in earning his 28th career victory and his 49th shutout.

Cubs 7, Cardinals 0

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Tigers 7, Indians 1

In Detroit, Dave Rozema and Aurelio Lopez combined on a seven-hitter to give the Tigers a 7-1 victory over Cleveland. Rozema (3-0) allowed just five hits in six innings, and Lopez earned the save by going

LANGUAGE

Period Pieces

By William Safire

WASHINGTON — Charlton Heston, the only actor who turns when somebody yells, "Moses!" or, "El Cid!" called me one morning recently. His stentorian voice over the telephone was indistinct — he was calling from a car, or from the top of Mount Sinai — but it was clear he had a language problem.

"I'm concerned about what I think may be anachronisms," he shouted, "in a script we're shooting down here." It turned out he was filming a movie mini-series called "Chief" (which is about a police officer, and has nothing to do with Indians) set in a small Georgia town in the 1920s. "The scriptwriter is willing to accept your judgment on whether these expressions would have been in use down here in that era."

I whispered to myself the code word for the 1920s — *shenanigans!* — and prepared to hear the phrasés Heston might not fit the time. Nothing is more off-putting — or, as they used to say, nothing sounds a more sour note — than a word or phrase in a historical movie that is in current usage but was unused at the time. "Say it on me," I said (a 1960s term).

"*Wear it in good health!* is one of the phrases," the actor said. "And the other one is *So I lied!*"

Yiddishisms both. Harry Gold-en, who did not move South and became editor of *The Carolina Israelite* until the 1940s, used the expressions, but it is unlikely that many Southerners in the 1920s would have spoken that way. Today, sure: "I'll wear it in good health, heah!" Not three generations ago, before television.

Unhesitatingly, I pronounced judgment (which I spell no other way): Those were anachronisms. Mistakes writers have been making since Shakespeare had a character in *Julius Caesar* say he heard a clock strike (The Romans had no clocks; they wore hourglasses around their wrists, or something). If he wanted a Second Opinion, I told him to call Leo Rosten, author of *Hooyar for Yiddish!*

He did. Later, I spoke to my friend Rosten to make certain the phalanx of experts was sticking together. Sure enough, *Wear it in good health* is the English translation of the Yiddish-German *Trug*

er gezunderheit (though Leo's mother used to say, "Yer it in good heah"). So *I lied* is probably the punch line of a forgotten Jewish joke; it sets aside the most common meaning of *so*, which is the chronological "and then," preferring a meaning synonymous with one of the many meanings of *me*: a sly or ironic way of saying, "And what are you going to do about it?" To give the flavor of the intonation, the phrase would better be "So! I lied."

Rosten's point to Heston, who has a good ear, is: "Even if it's right, it's wrong" — that is, even if the expressions had been used in rural Georgia in the 1920s, their use in a movie would distract an audience: "In 1924? Absurd."

This episode led me to a life I have been building for months, with the help of *Lexicographic Irregulars*. The file is labeled "Chronisms." These are words quivering in the aspic of time, perfect for use by dramatists who want to give historical scenes the flavor of authenticity, starring Vera Similitude, my 1940s *hearthrob*.

One class of chronisms deals with the names for objects no longer in use. Such rumble-seat chronisms include *milk bottle* in an age of containerization, *slide rule* on a platter of efficient chips, *watch bob* in a steady dose of digitals, *scooter* for the skateboard generation, *Butterfield 8* in the all-digit era, *smooch* in the Hairspray Age. It is not the word that has disappeared; the thing itself is gone or going, and the word reverberates like a shimmering old photo. If you want Vera to seem at home in a bygone era, have her tell her kid to pull up his *knickers* and crank up the *phonograph*.

More interesting to the linguist are the nonce-word chronisms, those words that zipped through a decade like naked *streakers* of the 1960s or the *twenty-three skidoo* of the '20s. *Uptown* meant "upscale." Peachy and keen merged, to be replaced by *nyfif* and now *cool*. "We were pupils at school," writes Steve Cartwright of *The Central Maine Morning Sentinel*, a child of the Fabulous '50s, "a bunch of boxes, but we were pals. It was swell."

He is a midget — a term the

circus reserves for dwarfs of normal physical proportions. His father and mother, Ganos and Margarite, and his brother and sister, also named Ganos and Margarite, were midgets, too. All were about 42 inches tall. Charles Stratton, whom Barnum exhibited as "Gen. Tom Thumb," was 40 inches tall as an adult.

His fellow performers give Michu a wide berth. He once was knocked down by an acrobat rushing to make a cue and was a week recovering. He is barred from strolling the streets of large cities because of the danger of accidental trampling.

Charly Baumann, the tiger trainer, picks Michu up and places him at eye level for a man-to-man talk. For most, however, that would be an act of unacceptable intimacy. Women who have tried it have found, in fact, that Michu responds with acts of unacceptable intimacy. He also bites, and has a habit of punching circus people behind the knee to announce his passing. He smokes cigarettes and cigars and drinks French brandy, sometimes excessively. A skilled mime is capable of devastating parody.

For these reasons, it is said by persons in the circus, Michu keeps to himself nowadays.

Michu is a bachelier, but he has been married more than 1,000 times in the center ring in an act that ran for more than two years. "It was a big celebration every

The Small World of Mihaly Mezaros

By Christian Williams
Washington Post Service

WASHINGTON — Michu is 33 inches tall — the Smallest Man in the World. He is 43 years old, weighs 25 pounds, wears a size 3 shoe. His full name is Mihaly Mezaros, and when he was born in Budapest he weighed 2½ pounds and was 14 inches long.

Ringling Bros. and Barnum & Bailey today is surely devoid of snake oil. Once the sideshow was a great draw, but now its absence is almost a relief.

Mihaly Mezaros is believed to be the smallest human known. In the circus, he rides a tiny cart, waving gaily to children taller than he, later he appears with his trained poodle act, and appears again as a comically tiny Taxman. He is not in a sideshow, but the center ring.

"When I was born, my parents were working in Lilliputian Theater in central Budapest," Michu began in his Donald Duck voice, pausing to light a long cigarette high in the empty grandstands recently in Charlotte, North Carolina. "This was like a zoo park, you know? Lots of different shows going on, just like Great Adventure. Country people coming up to see it. Thirty people living in the Lilliputian House. My brother and sister were in the same business, too."

Then the war came and "the bombs fell. Everything was gone," he shrugged, a tiny gesture. After the war, Michu, with other children who were dwarfs, attended a state-run circus school that taught juggling, pantomime and acrobatics as well as traditional subjects. "Ah, it was not too bad. Everybody was small, but the director and the teacher were taller guys."

For 15 years he traveled, working as a clown, unicyclist, acrobat and dancer for a small Eastern European show, "all that time sleeping and dreaming that I would come to United States."

To converse, Michu must look up. From this deformed position he has learned to counter with a wincecrack. A new companion is unversed. The advantage, on first meeting, is Michu's. Otherwise his advantages are few.

He is a midget — a term the



Lucien Perkins, The Washington Post

Mihaly Mezaros, alias Michu.

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For these reasons, it is said by persons in the circus, Michu keeps to himself nowadays.

Michu is a bachelier, but he has been married more than 1,000 times in the center ring in an act that ran for more than two years. "It was a big celebration every

time," he said. "We were the smallest people ever to get married in the circus. Such a beautiful show. A long time ago General Tom Thumb got married and it was a very popular act. That's where the idea came from."

"But it didn't work out. She had never been with the circus before . . . I wanted to keep working together, but after two years she went back to Hungary. She is married now. Her husband is a midget, too. All were about 42 inches tall as an adult."

Irvin Feld began to hear about a very small midget, the smallest in the world, in the early 1970s. If such a man existed, he was determined to get him. By 1971 he had narrowed the search to Hungary. In 1972, the Hungarian government confirmed the existence of such a man, but declined to let Feld meet him.

Feld is an entrepreneur-impressario in his 60s who wears thick eyeglasses and smokes thin cigars. He makes several trips yearly to Eastern Europe, auditioning performers. Feld recommended he finally hired Michu.

"It's okay," Michu said. "I'm happy. I have mobile home, generators, a barbecue. I like fishing. What I do is show business. Like comedy, really. I'm a good mime, they say! Thank you very much. To do it you must learn to observe people closely. No problem for me, I'm a professional."

"Really, I feel like a regular person. A life is a life. A job is a job. A paycheck is a paycheck. Take the paycheck and start up. That's from Mr. Feld. Ah ha ha ha ha ha ha ha!"

It turned out that the green eyes were bear's. That's right. They also had a porcupine in there, and a python. What it was, was a scab (unauthorized) circus. That's the reason the Hungarians wouldn't show him to me before."

To confront Michu is to realize almost at once, that there is no legitimate question. To the illegitimate questions — should we wish to pry into the private life of a 33-inch man — he responds mysteriously, in teasing sentences without verbs, with raised eyebrows, with inexplicable jigsaw pieces of disinformation: "I don't know what he is. He is not easy to respond in kind."

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ALGIERS POSTCARD

The Crumbling Casbah

By Michael Goldsmith
The Associated Press

ALGIERS — The legendary Casbah "Come with me to the Casbah" has lost its glamor and mystery. The ancient heart of Algeria's capital has become a derelict, rat-infested slum.

"Now at this time, I had just about no peripheral vision in my eyes at all. We were being led up these back steps, and suddenly there's two big green eyes staring at me, very close. We get to the top, and walk into a room. There's a python on the floor. All of a sudden, whoosh! something runs into my leg. And that's how I met Michu. There was a bottle of brandy, and we talked."

But an UNESCO expert who spent two years drawing up plans for saving the Casbah concluded that 10 times as much money would be needed. The chronic housing shortage and the drop in Algeria's oil revenues have limited the funds available for safeguarding the nation's cultural heritage.

An estimated 100,000 people, many of them among the poorest of the city's 2.5 million inhabitants, are jammed together in the 1,700 buildings of the Casbah. Families of eight or 10 often live five into a single rented room in primitive conditions.

Before the derelict houses can be demolished and rebuilt, accommodation must be found for the occupants. Since 1975, more than 200 four- and five-story Casbah houses, many of them at least two centuries old, have collapsed. There is no public record of the deaths or injuries. The survivors are housed in tents, sometimes for months, awaiting other accommodation in the suburbs.

To the visitor approaching Algiers from the sea, the Casbah is a cascade of white-painted terraces descending steeply to the harbor, seemingly as solid as when they were built in the early 18th century after a disastrous 1716 earthquake.

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Many of the occupants observe the cracks in the walls with a much concern as they feel about the official evacuation of the more dangerous areas. There is widespread controversy over whether priority should be given to preserving the Casbah or, to providing modern housing for the inhabitants on the site of demolished buildings.

Traditionalists shudder at the prospect of a superhighway, a way station, a high-rise parking garage and a giant bus station that are planned for the very edge of the Casbah.

"People like living here," said a jeweler, Mohammed Benabd, in his Casbah workshop. "They don't want to be moved into tents or into far-distant suburbs. So when they see cracks in their walls, they try to shore them up with planks or hide them with sheets of tarpaulin."

"We know most of us will eventually have to leave. But it would be heartbreaking if the planners were then allowed to turn our Casbah into a concrete desert."

It's a far cry from the 1950s, when the French actor Jean Gabin uttered the immortal invitation to his heroine, "Come with me to the Casbah," in the French film "Pépé le Moko," later remade in Hollywood as "Algiers" starring Charles Boyer and Hedy Lamarr.

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